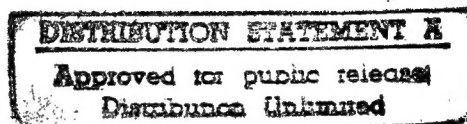


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1992 Federal Budget Outline Presented

92CH0104A Prague HOSPODARSKE NOVINY
in Czech 17 Oct 91 p 4

[Article by "sw": "A Compromise on a Positive Basis"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The compilation of the budgets for 1992 will not be a simple matter. This is primarily because, for the time being, it is not possible to establish even the fundamental parameters of future economic developments with any reliability.

However, it is not possible to delay the work, so the first preliminary variant of the public budgets were discussed within the Financial Council of the CSFR toward the end of last month. It was based on the estimate of economic development in the next year on the one hand, and on the intentions of financial policy on the other hand. An inevitable compromise ensued, which will be finalized and, obviously, also corrected in accordance with actual developments in the final weeks, be they economic or sociopolitical in nature, and which generally determine the expenditure portion of the budget. However, it is possible to anticipate that the fundamental approaches, on which the proposal was based, will remain preserved and, therefore, it will not be wasted effort to recall them.

The estimate of economic development for the year 1992 is based on the fact that the real level of individual consumption will become stabilized. After the drastic decline in the standard of living this year, a more express decline in the next year is not anticipated. There should be a halt to the decline in investment activities in connection with the development of investments in infrastructure and the gradual expansion of the private sector. In the foreign trade area, export activity will begin to grow gradually and will involve newly privatized enterprises. It can also be anticipated that commercial exchanges involving developed markets will stabilize and will expand. The development of economic relationships with countries of Central and East Europe is also expected to quiet down. These suppositions lead to the conclusion that gross domestic product will not decline by more than 10 percent. The economic downturn will be connected with further growth of unemployment which could increase in the short term by up to one-third, in comparison with the end of 1991. However, this increase will no longer be based only on the decline in production, but will be increasingly connected with the beginning of the adaptation process in the economy, that is to say, it will be generated even in the private sector.

Next year, inflationary impulses will not be as strong as they have been this year. The development of price levels will be determined by the development of fundamental macroeconomic relationships between aggregate supply and demand, with aggregate demand remaining the

limiting factor in price growth. A certain risk factor influencing the increase in prices will be represented by the development of incomes, particularly of wages. Another factor in the growth of the price level could, in the first half of next year, be the movement of prices in chain reaction style: plant products—livestock products—foodstuffs; the increases in selected communications tariffs, and adjustments in rents. It is anticipated that inflation in 1992 would be somewhere between 10 and 20 percent.

Despite a certain anticipated revival of foreign trade, however, it is not possible to figure on an express improvement in the balance of payments in freely convertible currencies for the year 1992. Large-scale privatization and the restructuring of industry will clearly lead to a revival involving the importation of machines and installations for production consumption—facilities which are being replaced this year by imports of consumer goods.

Financial policy in 1992 will primarily strive to block the inflation process, to minimize the economic decline and, at the same time, to reduce the involvement of the state in the economy. The fulfillment of these goals presupposes a continuation of the restrictive fiscal and monetary policies. Violation of this orientation could, among others, lead to weakening the purchasing power of the koruna, to the risk of its devaluation, and to a growth in inflation, coupled with the necessity to solve social consequences resulting from this development.

The principles of fiscal policy are thus based on the following intentions:

- Not to increase the share of public expenditures for gross domestic product; for 1992, the goal is to maintain this share at the level of 1991, that is to say, within the boundaries of 50 percent.
- To compile a balanced or slightly surplus budget with appropriate reserves for unforeseen expenditures.
- To maintain a realistic level of expenditures for education and public health and to assure the financing of the social safety net.
- To continue with restrictions in the direction of the enterprise sector and public consumption on the part of the state while safeguarding debt service which will have a qualitatively and quantitatively new significance in the federal budget and will attain a level of approximately 13 billion korunas [Kcs], compared to Kcs2.5 billion this year.
- To create room for revising the tax rates applicable to enterprise taxes and to further unify rates involved in indirect taxes.

To fulfill the above prerequisites of economic development and intentions involved in fiscal policy would mean the compilation of such a variant of the public budgets for the entire CSFR, as is indicated in the table below.

Basic Characteristics of the Proposal for a Slightly Surplus Budget (in Billions of Korunas)

| Totals for Public Budgets | Budget for 1991 | Contemplated Budget for 1992 |
|---|-----------------|------------------------------|
| Sales tax | 142 | 140 |
| Payments and taxes based on enterprise profits | 143 | 133 |
| Wage payments | 123 | 134 |
| Taxes based on wages | 58 | 64 |
| Other taxes | 13 | 22 |
| Nontax revenue | 29 | 37 |
| Total revenue | 508 | 530 |
| Subsidies for enterprises | 73 | 62 |
| Investments by budgetary and contributory organizations | 43 | 44 |
| Noninvestment transfers to population | 164 | 171 |
| Other noninvestment expenditures for population | 114 | 124 |
| Public consumption of state | 104 | 107 |
| Other | 2 | 19 |
| Total expenditures | 500 | 527 |
| Surplus | 8 | 3 |

Risks lie primarily in the failure to fulfill the prerequisites regarding the magnitude of revenues. Developments this year already indicate a lower rate of fulfillment pertaining to the sales tax as well as taxes and payments based on enterprise profits. It can be anticipated that some tendencies in the decline of production will continue even next year and could, thus, significantly destabilize the revenue portion of the budget. It is not possible to estimate precisely the manner in which the initiation of large-scale privatization will show up in terms of the efficiency of the economy. This national economic factor, which is an activating factor in the long run, could, in the beginning, be accompanied by extensive production and organizational changes which are generally connected with a temporary decline in output. The anticipated stabilization of the consumer market also need not take place—something which could threaten the revenue base on sales taxes. The expenditure portion of the budget could then fall victim to pressures to increase social security payments.

In other words, risks do exist. The proposal which was discussed by the Financial Council of the CSFR and the basic characteristics of which we have listed may undergo fragmentary changes. In any event, however, the principle of balancing with a reserve for unforeseen expenditures should be adhered to. This will require a realistic evaluation of the revenue possibilities on one side and a certain tenacity with respect to the expenditure portion on the other side.

Federal Economic Policy Viewed, Criticized

92CH0101A Prague HOSPODARSKE NOVINY
in Czech 23 Oct 91 pp 8-9

[Commentary by A.I. Simonn; Prof. M. Matejka, Advanced School of Economics, Prague; Prof. V. Pucik, University of Ithaca and Tokyo; and Prof. M. Zeleny, Fordham University: "Arguments and Proclamations Regarding the Crisis in the Czechoslovak Economy"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] In looking at the four signatures beneath today's discussion, the informed reader will undoubtedly recall similar material published in some dailies and, subsequently, even in HOSPODARSKE NOVINY, together with a polemic response by Eng. Karel Dyba, minister for economic policy and development of the Czech Republic. In our effort to present to readers the authentic text by the four authors, to which representatives of some political parties have also appended their signatures, we reprinted the text of a work by the absent Prof. M. Matejka, which had been provided to us by collaborators during the period under consideration, and we did so in good faith. As we learned subsequently, this was one of the working versions of the given material. The editorial board was not only subject to sharp criticism, but was also accused of resorting to some former dubious practices. We do not consider it to be productive to disprove that which is disproved by every issue of this journal, which is—as is attested to by numerous letters—valued by its readers, among others, precisely for its consistent objectivity. Instead, we present the paper of these authors, whose previous appearance in our journal was connected with the above oversight:

Our "Proclamation on the Crisis in the Czechoslovak Economy," together with the proposal of urgent measures was placed at the disposal of the communications media on 29 August 1991. HOSPODARSKE NOVINY only briefly mentioned its existence. Readers were not presented with one of the unauthorized versions until 17 September 1991, together with a position of rejection expressed by Minister K. Dyba and, subsequently, by Minister V. Dlouhy (25 September). Three pages for the ministers and now one page for us.

We, therefore, restrict ourselves only to an excerpt from the wide-ranging argumentation which will be published elsewhere.

I. Economic Development

The status which the Czechoslovak economy has reached since the initiation of the reform is characterized by us as a deep crisis and the developments are seen as the uncontrolled destruction of the economy. Both K. Dyba and also V. Dlouhy reject this position. If K. Dyba claims that the crisis does not exist, he denies that which he signed himself. In March 1991, it was the Proposal for Solving the Sales and Fiscal Crisis in the Enterprise

Sphere in the Czech Republic. If Czech enterprises were already in crisis at that time, what has changed for the better since March?

Decline in Production

The development of production is decisive with regard to overall economic development. Government representatives claim that existing development is in harmony with their expectations. This is not true. For the year 1990, V. Klaus anticipated a 2-percent growth in national income; however, national income declined by more than 3 percent. For the year 1991, the government expected a production decline of up to 5 percent. The development of daily production is decisive in terms of evaluating the efficacy of the reform. As early as August, daily industrial production was lower by 27.4 percent than it was a year ago. If this year's existing development is to continue, we shall record a decline in December which will outstrip even the blackest notions. Moreover, a substantial portion of the products ends up among unsalable inventories, which are growing. The Skoda Enterprise at Mlada Boleslav, LIAZ, and a number of other enterprises not only in the automobile industry are sad monuments to the destruction of the Czechoslovak economy resulting from the annihilation of domestic demand. (See, among others, the article entitled "How Czechoslovak Industry Is Being Ruined," a conversation with the German member of the Skoda management, published in PROFIT.) The extraordinary crisis is not only affecting industry, but agriculture, construction, and transportation as well. The results of the reform are, in fact, worse than our prognoses which were previously attacked by government economists as unsubstantiated and catastrophic.

The rapidity of the production decline is without precedent in our history. In the crisis of the 1930's, industrial production in this country declined, on average, "only" by 11 percent per year. With this year's comparison, we are outdoing even those countries in which we ourselves consider development to be frightening (in August, Poland recorded a 19-percent decline in industrial production; the USSR is estimating a decline between 15 and 20 percent). We are considered to be worse than Poland even by United Nations experts who, at the same time, point to our better starting conditions. Unfavorable development is being experienced not only by overall production, but also by its structure. The importance of processing industries is declining, and the weight of simple, energy-intensive, and ecologically harmful production is rising.

Fictitious Positives

K. Dyba raises the positive argument that price increases have been halted, there is relatively low unemployment, there is a surplus in the state budget, and foreign indebtedness is growing at a slow pace. It is not even possible to agree with this argument.

The short-term slowing down of the price rise, following the sharp price leap is not an argument indicating that a crisis does not exist. The drastic decline in demand forces producers to lower the prices of the products which they have in their inventories even below production costs. The restriction of production for sales reasons leads to an increase in fixed costs per unit of production which can result either in a repeated increase in prices or in the bankruptcy of enterprises. Unemployment will also increase rapidly; the enterprises cannot long afford the current degree of overemployment.

The budget surplus is also false and short-lived. In the first half of 1991, it was achieved by a hidden lowering of real expenditures compared to the plan and by state budget revenues based on paper profits rather than real profits achieved by the enterprises.

The real expenditures of the state budget were lower by more than 10 percent, in comparison to government expectations. Although nominal expenditures exceeded expectations by not quite 1 percent, prices grew substantially more rapidly (by more than 40 percent) than the government had anticipated for the first half of the year (by 27 percent).

The fictitious enterprise profits and the resulting tax revenues flowing into the state budget were based on two principal "sources." First, the enterprises computed material expenditures and write-offs largely in terms of old prices, while production was expressed in new substantially higher prices. Second, profits continue to be computed and taxed in our country in the old way, among others, also based on production which is invoiced to and dispatched to insolvent customers. In the event a system of taxation which is current in market economies were introduced here, our state budget would be recording a high deficit. For this reason, the government is clearly dragging its feet with regard to a change, which would not be complicated. Because the economy, as a whole, will not permit itself to be cheated, the burden of debts has been transferred to the enterprises.

The Finance Council has now proposed to rid the enterprises of debt with funds acquired as a result of privatization. This is the conduct of a bankrupt entrepreneur, comparable to a situation in which the administrator of a family estate would want to erase the estate's debts by selling off the property. The government is seeking to solve its budget problems secretly in this way.

What is characteristic for the "systems nature" of the financial policy is the fact that V. Klaus, on Sunday, 6 October, stated on television that money realized through privatization will not be channeled to the enterprises (he refers to the example set by Mrs. M. Thatcher) and a mere two days later the Financial Council adopted a completely different recommendation under his leadership.

Foreign indebtedness must be tied in with production and exports and must, thus, be utilized to evaluate the ability to pay off debt. Relative foreign indebtedness

increased last year as well as this year by more than it did in previous years. Attempts by the government to pay off foreign debt by increasing exports at the expense of domestic consumption are rapidly encountering a social barrier with the decline in production.

Prospects of Future Development

Our skepticism with regard to the future results of the reform is based on the following facts:

1) The reform does not provide positive elements for future development, with the exception of privatization, which is, however, not in and of itself a salvation. In addition to the negative development regarding the structure of production, investments in the infrastructure and in the modernization of production are declining expressly, as are expenditures for research and development. The necessary quality shifts in product parameters and production technologies are not occurring. Long-term developmental programs do not exist, operations are handled on a day-by-day basis. As the efficiency of the economy declines, so do the internal resources necessary to overturn negative developments.

2) There is not a single country in which a reform would result in "shocking" things into long-term economic growth. For the most part, reforms were followed by rapid economic disintegration. Developments in Poland are primarily instructive—Poland has about a one-year head start over us in applying shock therapy. As Polish economists themselves claim, their country is already at rock bottom. If the International Monetary Fund were to actually deny Poland additional loans—something which it is threatening to do—the entire shock therapy will end in a total fiasco. Even the artificially created convertibility would fail and hyperinflation would break out again. The first step in this direction is the just announced creeping devaluation. Economic development in our countries is characterized as a barbarically destructive recession (THE ECONOMIST, 21 September 1991).

3) Unfavorable developmental prospects in the CSFR are also indicated by last year's prognoses made by Japanese experts (Nomura Research Institute), which were based on the econometric model of the Czechoslovak economy. The Government of the CSFR has selected variants which are even worse than those which were proven to be unsuitable. The rationality of the Japanese prognoses was not disproven by our government and the government itself never presented a well-founded prognosis of the development of the Czechoslovak economy. Developments thus far indicate that the Japanese prognoses are correct.

II. The Government's Economic Policy

We see the causes of unfavorable economic development in an erroneous macroeconomic policy and in the lack of existence of a microeconomic policy. We even criticize

the process of privatization; we demand that responsibility for the entire situation be assessed. K. Dyba fundamentally rejects everything.

Macroeconomic Restriction and Across-the-Board Liberalization of Imports

In our proclamation we state that demand for domestic products was virtually destroyed on the domestic market by the cumulative effect of restrictive measures and by the across-the-board liberalization of imports. K. Dyba counters by saying that the limits of currency and wage restrictions were not exhausted by a long shot during the first half of 1991 and that budgetary restrictions were flexible. According to K. Dyba, the liberalization of imports was, thus, essential to the formation of competition and was beneficial for the population.

With regard to currency restrictions: Developments involved in the availability of money in 1990 were not commensurate with the developments of the nominal value of production. The disproportionately low availability of money was one of the principal reasons for the chain reaction growth of insolvency among enterprises. This was admitted by V. Klaus in a letter to J. Tosovsky in March of 1991, which was published in the press. Not relaxing monetary restrictions until major sales problems occurred was not able to help. The same is true of wage restrictions. The sharp decline in real wages during the first quarter of 1991 showed up as a deep decline in aggregate demand for consumer goods. The sales barrier led to a decline in production and productivity and intensified the financial problems of enterprises, destroying the possibility for a justified increase in wages.

That which is characteristic for the entire reform can be seen from the currency and wage policy. Fundamental interconnections are not thought through to the end, problems are reacted late and ineffectively, a number of problems are caused by the completely unnecessary erroneous economic policy.

Even K. Dyba's defense of restrictive budgetary policy is unacceptable. Restricting demand only makes sense during intensive boom periods, when the growth in production is falling behind the growth of demand and leads to inflation. Unfortunately, the Czechoslovak economy was not and is not in such a situation. Our basic task was and is to revive the moribund Czechoslovak economy. This is a reason why the previously mentioned Japanese experts recommended an expanding budget for the 1990 through 1995 five-year period. According to their analytical computations, a policy of a balanced budget will lead Czechoslovakia into "icy waters of negative growth." A policy of budget surpluses would then, logically, lead to the depths of these icy waters.

Given the sharp decline in aggregate demand and production, state budget revenues decline more rapidly than the pace at which it is possible to reduce expenditures. In the end, the budget will show a deficit anyway (Poland),

but this is a critical deficit which, in contrast to an expanding deficit, provides nothing positive. It only leads to devaluation and inflation.

With respect to the liberalization of imports: The legacy of socialism was the low competitiveness of Czechoslovak products in global markets. A substantial portion of products manufactured were destined for the domestic market. The immediate across-the-board elimination of protection for such a weak economy (in place of a regime of reasonable gradual opening) is tantamount to economic suicide. Experiences in the former GDR are totally convincing in this regard. The fact that we have opened ourselves to the world more than the world has opened itself toward us is a manifestation of economic naivete. If we do not take steps to create a sales hinterland for our production in the domestic market, it is not realistic to compete in global markets. The volume of production will be inadequate, its effectiveness will be low.

Karel Dyba claims that free imports are beneficial for the populace. However, in countries with ruined production, the overwhelming majority of people lack the funds to purchase the imported products.

The Government's Microeconomic Policy

Our proclamation stresses the fundamental significance of an industrial policy and additional elements of microeconomic policy, much as the government pledged to do in its program. Dyba's justification for the slowness of creating a microeconomic policy by claiming that the problem is complex, cannot be accepted. The problem has been successfully solved in a number of countries; there is something to draw on.

Our government officials should first clarify for themselves what it is they want. "We must finally understand that the economy runs by us, to a considerable extent. In the event anyone has any surviving illusions as to the fact that we direct or control it, he should rid himself of these illusions with finality," states V. Klaus and, thus, practically rejects the need for a microeconomic policy. What is K. Dyba's response to this? V. Dlouhy is attempting to connect a microeconomic policy with the ultraliberalism of Klaus—something which is not possible.

Privatization

Our proclamation demands the temporary halting of privatization and its more thorough preparation. K. Dyba characterized our position as the pinnacle of antireform efforts. What is reportedly essential is speed rather than the precision of privatization.

The reasons for our demands to temporarily halt unprepared privatization are clear on the basis of the published position of the chairmen of privatization commissions, published during the course of privatization. Their criticism is aimed at the fundamental problems based on the adopted laws and their interpretation and application. The argument that large-scale privatization will

complete all that which small-scale privatization was not able to accomplish is rejected by the commissions, which claim that all mistakes will become irreversible. What is decisive is the quality of privatization, rather than its speed.

Jurisdiction and Responsibility

Our demand for the evaluation of the causes and responsibilities for bringing the Czechoslovak economy into a completely extraordinary crisis situation is a democratic demand. Anyone who has jurisdiction must, in a democracy, also bear responsibility. K. Dyba does not like this and is operating on the basis of bad historic experiences. These are something which we have precisely involving uncontrollable power.

III. Development Alternatives

Our brief fundamental proclamation on the status of the Czechoslovak economy could not have contained specific proposals for the solution of individual economic problems—something for which K. Dyba criticized us. Specific proposals—alternatives toward the government's economic policy—were being presented by us as of last year in a number of written contributions, at public appearances, and in internal discussions with government economists. (As early as January 1990, for example, the Ministry of Economics had held a polemic, lasting several hours, and involving Engineer Simon and Ministers Dlouhy and Klaus on the topic of whether to promote expansion or restriction. Simon's position in favor of a developmental policy was supported at that time by an employee of the World Bank who was present.)

The substance of the alternatives to the government's economic policy proposed by us can be summarized as follows:

1) We orient ourselves toward rapid and long-term economic growth. Given the current situation in the Czechoslovak economy, we prefer an expanding credit, taxation, and budgetary expenditure policy. We recommend immediate investment in the modernization and restructuring of the economy and in creating an infrastructure, something which presupposes a certain startup indebtedness on the part of the state. All nations who were successful and who are successful in eliminating economic backwardness acted and continue to act this way (the countries of eastern Asia, Austria, Spain, Portugal, and today even Germany, which is involved in eliminating the backwardness of the former GDR). An expansionist internal (and possibly even a foreign) debt by the state is an investment by the population in the future. The danger of inflation at a time of recession, given a qualified expansion policy, is minimal.

2) We attach a great deal of importance to an active microeconomic policy, particularly with regard to industry and agriculture. It is necessary to regulate the use of foreign exchange to benefit the modernization of

production. It is necessary to influence even the development of industrial superstructures in favor of qualified ecologically acceptable production. It is even important to have a regional policy, particularly involving the safeguarding of the balance of economic development in both of our republics. Imbalance gives rise to national passions and could become the principal reason for the disintegration of Czechoslovakia.

3) The task of privatization must be to support reproduction (by using domestic as well as external capital resources) and a change in the relationship between people and enterprises. In harmony with worldwide trends, we recommend that in our privatization process preferential treatment be accorded to the ownership of enterprises by managers and employees as well as citizens of the region in which the enterprise is active—that is to say, the crossover ownership of people who are directly interested. To the extent to which the state sector exists, the government cannot give up its controlling ownership role. Privatization must be under the strictest public control. It is essential to avoid corruption in the most effective manner—corruption which is already generally being discussed. We recommend the establishment of a parliamentary commission to oversee privatization, a commission to which all who have the slightest proof regarding the corruption of government or enterprise employees might turn without fear, even if their information is based on past performance.

4) We consider the social aspects of a market economy to be very important; we consider a market economy without ownership participation to be an anachronism. Without a prospering economy, it is not possible to assure the fundamental social securities, and without a favorable social climate it is impossible to secure economic prosperity.

5) We are not relying solely on the market mechanism. Everything will be decided by people, by their knowledge. Our people are not trained for and, on an overall basis, are not psychologically prepared for the conditions of a contemporary market economy. It is necessary to develop a massive and practically oriented system of training. It is important to educate people not only for the enterprise level, but also for functioning at the government level.

The comprehensive task of Czechoslovak economic policy in the current period is to halt the decline, to stabilize the economy, and to gradually lead it out of the crisis. Today, we face a substantially more complicated task than was the case two years ago. Every day that we continue on the existing course will cost us dearly.

[Signed] A.I. Simon, M. Matejka, V. Pucik, M. Zeleny

Violation of Privatization Principles Viewed
92CH0104B Prague HOSPODARSKE NOVINY
in Czech 17 Oct 91 p 4

[Editorial by Eduard Oswald: "Privatize Things so That..."]

[Text] "In conjunction with the request by Skoda to sell off 32 automobile service facilities, [you are to] work out

a proposal for a partial privatization project involving this portion of the property holdings in such a manner that this partial project can be presented by you at the Ministry of Industry of the Czech Republic by 9 October 1991 at the latest."

This blunt order was received on 26 September of this year by the director of Mototechna, state enterprise, from the director of the Department of General Engineering of the Ministry of Industry of the Czech Republic. The simple matter could end with the management of the Mototechna enterprise reading the communication, throwing it into the wastebasket, and going for a beer. Because this did not occur, and because the management of Mototechna is visibly vexed by the delivered message, let us use the occasion to uncover the broader connections involved at the formal, substantive, as well as national levels.

At first glance, the austere style of the communication "...work it out so that..." is tendentious. According to Law No. 92/1991 on the transfer of property, it is justified only to the extent to which it orders an enterprise to work out a proposal for a privatization project—which the founder cannot do. It can also assign a "reasonable" time limit for doing so. Nothing more. As can be seen, the opportunity which is offered by the law was utilized completely in this case and the authorities were even exceeded. No one may dictate to an enterprise or to anyone else who is working out a privatization project the method by which privatization is to be accomplished. It is also completely at the discretion of the person working out the project whether it will encompass the entire enterprise, a portion of it, or several enterprises. The founder certainly has control of the law. What then gives him the right to such a self-confident approach? The knowledge that it is the founder who appoints and recalls the director of the enterprise, who approves basic salaries and yearly bonuses. Nothing more—but also nothing less.

From the substantive standpoint, the problem lies with the inventories which at Mototechna amount to virtually 7 billion korunas [Kcs]. A significant portion is represented by unsalable inventories. According to the rules of large-scale privatization, an enterprise can sell itself (or part of itself) for a price which is higher than the accounting value of its net worth, so as to compensate for unsalable property, that is to say, for example, it can lower the value of unsalable inventory. It is, thus, logical for Mototechna, a state enterprise, to propose in its privatization project the sale of the above-mentioned 30 operations by the auction method. This step falls into the overall concept of privatization and of other developments at the enterprise, worked out at considerable expense jointly with a foreign consulting firm. It is estimated that the price of these operations could rise as high as Kcs4 billion in the auction. This would solve the problem of unusable inventory for Mototechna. On the other hand, the Ministry of Industry of the Czech

Republic is promoting a sale to a specific customer. In this case, the price is established by agreement. The logic of things indicates that the price will be the accounting price which will correspond to the residual value of the enterprise. In other words, an estimated Kcs400 million, as opposed to Kcs4 billion. This would result in Skoda receiving a Christmas present valued at Kcs3.6 billion to the detriment of the Fund of National Property and, ultimately, even the Mototechna enterprise.

The motive of Skoda is sufficiently strong as well as transparent. By transferring the automobile service facilities—because it is not possible to talk of a purchase—it would gain an exclusive monopoly position, not only with respect to production, but also distribution. The situation at the Skoda plant is well known. The enterprise finds itself in a heavy sales crisis, accusing the state and its economic policies of having caused it. This is one of our largest enterprises which employs thousands of people. Other thousands are dependent on it as sub-suppliers. In the event the enterprise were to radically restrict production or if it even were to go bankrupt, the region and the related enterprises are threatened with

actual massive unemployment. In its negotiations with the state, Skoda also skillfully abuses this fact. It has already compelled a lowering of the sales tax, while it tactfully forgot to propose the elimination of all of the advantages it has as an enterprise with foreign participation. They are not insignificant. Much the same as it did in the case of the sales tax, Skoda is now coming up with the argument that if it does not receive the entire Mototechna distribution system, the enterprise will fail, and along with it, the thousands of innocent employees. However, no one is denying Skoda the right to acquire these operations in auction sales. But why should it receive them at a ridiculous price?

The entire matter is reminiscent of a classic case. A beautiful bride, in her effort to support a poor family, takes a fat ugly millionaire as her husband. However, the scenario written by Skoda differs from the classic scenario in that the bride, instead of supporting her parents, comes to them begging. And, at that, she has a husband who is not only rich, but even good-looking and well developed.

Parliamentary Group Checks Communist 'Sabotage'

92CH0123C Budapest FIGYELO in Hungarian
24 Oct 91 p 15

[Interview with Dr. Istvan Szucs, chemical engineer, Hungarian Democratic Forum parliamentary representative, and one of the founders of the "Monopoly Group," by K.G.; place and date not given: "We Are Not Lay Brothers"]

[Text] Our reporter inquired from Dr. Istvan Szucs, one of the founders of the Monopoly Group, chemical engineer, Hungarian Democratic Forum [MDF] representative, and secretary to the National Assembly Committee on the Economy, about the activities of the Monopoly Group thus far.

[K.G.] What does the Monopoly Group's divergent crown emblem symbolize?

[Szucs] It symbolizes the scuttling of the power of local petty monarchs. The party state had been built on a hierarchical system of monopolistic organizations, and most high-powered leaders of these organizations are still in their places. The comrades we refer to as "star-eyed" do not sit idly by when they see us in action—we have already received more than one death threat.

We endeavor to constrain mainly the large food industry and the energy and telecommunication monopolies, which directly affect the people, but we also deal with anomalies we find in domestic commerce and in foreign trade, in health care, as well as in the insurance field. Our two main goals are to prevent monopolies from raising prices and their leaders from manipulating at the personal level. These two goals are closely related because to a large degree high prices can be explained by enterprise waterheads, which provide greasy jobs to the comrades, and by the high costs of recreational facilities, hunting lodges, and swimming pools, which ensure the comrades' welfare. We must pay particular attention to the privatization process to prevent power salvaging, which continues to go on unchanged, without impediments.

The August 1990 cabinet decision to elect new presidents in all enterprises directed by enterprise councils has failed; this is unfortunate because most existing presidents had been reelected by intimidated workers collectives. This is not what we wanted to accomplish. This is why we made a recommendation during parliamentary debate over property policy guidelines to temporarily restore ownership rights related to state enterprises, to the founding state administrative organs.

[K.G.] Is this way of developing legislative proposals characteristic of the work methods pursued by Monopoly?

[Szucs] No, it is not, even though we regard this as important. We receive an awful lot—several hundred each month—of reports submitted in part by our fellow representatives who have heard constituent complaints,

and in part directly from individuals. In general, these people do not seek to resolve their grievances through legislation, but at the operational level. Our group consists of only 12 persons, but virtually all of us worked previously in the economic field. We do not really want to expand our number, because a larger group would deform us into a debating club.

We screen and verify the information received, as warranted by its significance. We request the MDF representative in a given community to perform the screening and verification function; if a given representative is unfamiliar with economic issues, we even explain to him what he should be checking on. They, in turn, receive most of their information from MDF members. If the investigation provides a clear picture, we contact the minister of a specialized ministry or the minister of the interior and advise him that we are tracking a given case. This concludes our function; legislators cannot implement tasks.

Ministers and political state secretaries at the various ministries are generally MDF representatives. They are morally responsible to their parliamentary faction—thus also to us—to take action in such cases and to inform us of the outcome. In other words, they will come back to us and state what they had done within their jurisdiction, whether they were able to gain the upper hand relative to sabotage activities, or do-nothing attitudes manifested by apparatuses. The bulk of these apparatuses consists of old cadres. In cases involving enterprise issues, they would tell us what they were able to accomplish through their men seated in enterprise councils, boards of directors, or supervisory committees.

[K.G.] You obviously regard your own operations as a certain critique of the cabinet. To what extent are the individual ministries receptive to your work?

[Szucs] All we want to do is help, and the prime minister feels the same way. In addition to consulting with us individually, the prime minister has also received the group twice. Our official relations are good with every ministry; they receive our recommendations favorably. All it takes is a telephone call for them to find a way to discuss matters virtually within minutes. We have already obtained three rooms at the House of Representatives, where we have already welcomed several ministers and political state secretaries to update each other about our work and concerns. I do not know what they, personally, think about these meetings; I would guess that no one likes the feeling of being controlled in one way or another, of someone interfering with his work. But I repeat, the official relations are very good.

[K.G.] In a paradoxical way your functioning reminds me of the workings of party secretaries under the socialist system. They tried to put an end to undoubtedly existing problems by taking those out of their contexts and removing problems from the contexts of existing relationships of interests. They then used direct political methods or the methods of the communist movement,

applying economic policy concepts simplified down to the level of cadre policies. It seems as if you had forgotten that no one should act outside of society because society is motivated by interests, and that by intervening, you unavoidably become representatives of one or another partial interest.

[Szucs] I am baffled by what you have to say, and I regard this as an unusually superficial analogy. How could we become representatives of partial interests when we always endeavor to synthesize a variety of opinions? As professional economists we are not lay brothers, i.e., it would not be easy to deceive us. It is true that we endeavor to realize the program of a single party—of the MDF, but we are doing this with pride.

Change in GATT Memorandum of Affiliation Sought

*92CH0127B Budapest FIGYELO in Hungarian
17 Oct 91 p 4*

[Article by V.L.: "Letter to GATT, With Small Misunderstandings"]

[Text] Based on foreign news agency reports, several newspapers reported last week that Hungary had asked GATT to review the conditions under which it would join that organization. The news agency reports contained a number of inaccuracies and wording that could result in misinterpretations.

The facts are as follows: At last Tuesday's GATT council meeting Hungary has officially filed a request for the establishment of a working group to review the memorandum of Hungary's joining the Agreement, in order to eliminate specific deviations from GATT rules of general applicability, as contained in the memorandum. Hungary's permanent GATT representative, Ambassador Andras Szepesi, justified the request by saying that the memorandum contained several provisions that have become obsolete since Hungary had become a signatory to GATT, and particularly since the fundamental economic and trade policy changes took place in recent years.

Background: Hungary joined GATT in 1973, in the normal way, based on customs duties, i.e. in order to obtain concessions with respect to customs duties granted earlier to the parties to the Agreement, Hungary had paid its "entry fee" in the form of reduced customs duties. At the same time, the Memorandum of Affiliation contains certain specific requirements which were needed due to the trade regulations that prevailed in Hungary at the time, and because of peculiar trade practices pursued by Hungary's trading partners. Thus, for example, the memorandum provides for ways in which Hungary could maintain rules in its trade relations with the (former) CEMA countries—rules which deviate from GATT standards, ways in which countries which maintain discriminatory quantitative restrictions vis a vis Hungary would have to charge for these measures,

and includes obligation Hungary would have to observe until such time that Hungary became a member of the IMF.

With its present proposal to GATT Hungary wants to achieve a situation in which its participation in the Agreement becomes identical with those of other parties to the Agreement on a de jure basis. Hungary wants to obtain full recognition of its accomplishments in the transition to a market economy also in terms of the legal instrument that governs its membership in GATT, i.e. in the the Memorandum of Affiliation, in addition to the general international recognition and support it already receives. Accordingly, it is inappropriate to convey this matter as Hungary "wanting to formulate entirely new economic relations"; instead, it would be appropriate to say that Hungary no longer stands on the starting line of 1973 but is approaching (or has already transgressed) the finish line.

Kadar on Economic Policy Issues, Disputes

*92CH0127A Budapest FIGYELO in Hungarian
17 Oct 91 pp 1, 3*

[Interview with Bela Kadar, minister of international economic relations, by Gyorgy Varga, FIGYELO editor in chief; place and date not given: "Doubtful Unity; Kadar on the 'Compromise'"]

[Text] A verbal exchange between Finance Minister Mihaly Kupa and Bela Kadar, minister of international economic relations, did not materialize at the 21st Congress of Economists in late September. The two ministers' divergent views on economic policy are well known. Gyorgy Varga asked Minister Kadar about these disputes.

[Varga] Mr. Minister, what was the subject of bargaining between Mihaly Kupa and yourself? Did you reach a principled compromise, or should we give credence to rumors heard in both ministries, according to which the agreement between the two of you pertained to budget allocations for export incentives?

[Kadar] Anyone with a good memory will recall the differences between the PM [Ministry of Finance] and the NGKM [Ministry of International Economic Relations]. Because of these differences, some press organs biased in favor of the PM attached to my name adjectives like post-Stalinist, dictatorial, and etatist. But let us take a look at the issues at the roots of these differences. The first issue pertained to the need for a strategy to achieve economic transformation. This dispute has already become tense in June 1990. I did not believe then, and I do not believe today, that an economy that had been centrally directed for decades could be successfully transformed on a spontaneous basis.

[Varga] But this is how the transformation had begun; the new government had failed to develop a strategy during its first 100 days in office.

[Kadar] The process did indeed start spontaneously, and therefore the societal costs of transformation are higher. The way I see it, the cabinet would have had more latitude during its first 100 days to make painful decisions in preparing for transformation. This has been removed from the agenda, however.

The other difference of opinion evolved with respect to economic expectations. I predicted a large-scale tightening of the CEMA market by 1991, not only as a result of changing to dollar-based settlement, but also due to the crisis phenomena that had evolved in the Soviet Union. I felt that the Hungarian economy would be unable to avoid the devastating consequences of the Soviet crisis. We could have prepared ourselves for this eventuality had we had a cabinet strategy. We could have blunted the destructive force of the crisis. In early 1991 the NGKM had already estimated the magnitude of decline in Soviet trade at a 50-70 percent rate while the PM's forecast projected a 20-25 percent drop. Unfortunately, economic policy programs had been based on the latter estimate. Incidentally, an agreement regarding this issue had been reached only recently between the two ministries. Based on facts, the PM's present economic situation analysis is the same as that of the NGKM.

We should have accelerated the market switch in response to the dramatic decline in eastern trade. Accelerated product renewal and the stimulation of exports payable in convertible currencies would have been one of the means to accomplish this.

Enterprises that had lost their markets should also have received help to support the transformation of their production and supply structures. Accordingly, it was the NGKM's intent to enable a dynamic increase in exports by improving competitiveness. For this reason we had already recommended in mid-1990 the establishment of a fund to support market switching, the development of an export credit insurance and guarantee system, the implementation of the export competition system, and the appropriate maintenance of exchange rate policies. All this has failed to materialize, or if it did not, there was a delay in implementation.

[Varga] This, then, is the third group of differences.

[Kadar] But identical views are beginning to develop also in this regard. This change in outlook began when the cabinet and the PM acknowledged that the NGKM's Cassandra prediction had, unfortunately, turned out to be true, and when they agreed to establish the institutions and funds we recommended but under different names. I sincerely regret the fact that 15 months had gone to waste. Simultaneously terminating the export competition system and the agricultural subsidies, tightening credit resources for exporting enterprises, and conducting revalorizing exchange rate policies while forcefully liberalizing imports had been great mistakes in an economy that experienced crisis conditions. We went so far as to reduce customs duties in 1991. Two or three of these measures would have been appropriate, but by

removing itself simultaneously from all of these fields the state managed only to top the external shock effect with an economic policy shock effect. We could say, of course, that the fact that we have survived went to prove the vitality of the Hungarian economy.

[Varga] In my view the economic policy shock effect was also needed to force the entrepreneurial sphere to switch markets after 40 years.

[Kadar] This is true, but the societal costs of transition could have been lowered, and perhaps we would be closer today to an economic evolution, to a national consensus. Regrettably, we have lost speed.

[Varga] You also had some disputes with the PM concerning forint convertibility.

[Kadar] That is correct. Last year I estimated that the forint could be made externally convertible within 24-30 months. Ferenc Rabar, however, thought that it would be possible to accomplish the same within six-12 months. I also had disputes about import liberalization; I thought that last year we should have stopped at the 83-85 percent level, but business interest groups enthusiastically celebrated a larger scale liberalization at the time. Now they would like to turn the situation around, but this cannot be done on a unilateral basis.

[Varga] What recovery path do you envision in the given situation?

[Kadar] Recovery could come about primarily as a result of more intensely concentrating on development, because one cannot simultaneously disarm himself and permit competition to enter while also wanting to privatize, see a dynamic economy, have export accomplishments, as well as new entrepreneurial ventures without having adequate resources available. Structural transformation and achieving European standards demand a pronounced developmental policy, including an infrastructure, competitive product foundations and services, and, for example, an Expo, as a matter of introducing ourselves on the international scene.

[Varga] This is yet another point among the many where your views clash with those of others. Mihaly Kupa believes that the economy has bottomed out and that in 1991-92 the decline in production and in the GDP [Gross Domestic Product] could be stopped. What is your forecast?

[Kadar] I do not regard the PM prognosis of a 3-percent GDP increase in 1992 as realistic. We could expect zero growth in 1992 at best while recognizing signs of vitality in the final months of the year, provided that we took appropriate resource and developmental policy measures.

Society must make a choice between two values: What is worth more, to show to the IMF that we were able to reduce this year's 88 billion forint budget deficit to 65 billion in 1992, thus endangering the operation of social institutions and the chances of economic recovery, or to

accept an additional 1 percent, or 20 billion forint, increase in the state's indebtedness, thus providing a chance institutions to survive, institutions that by now have almost become unable to operate? Instead of a budget deficit ranging from between 65 billion to 70 billion forints, the government had settled with a compromise deficit level of between 70 billion and 80 billion forints. This would reduce the relative magnitude of the budget deficit to 2.6 percent of the GDP from this year's 3.6 percent. This also represents a turnaround and yet it is tolerable!

[Varga] You had disputes with organizations other than the PM. As a researcher you had been a strong critic of monetary policy and now, as minister, your critique is even stronger.

[Kadar] Monetary disturbances cannot be treated in Hungary simply by stimulating and restricting demand, because the imbalance of our national economy has, for a long time, had a structural character in addition to its fiscal character. Consequently, by applying one-sided, long-term restrictive policies to correct the imbalance, the resultant balance will be accompanied by a continuously decreasing economic performance capacity, which means reduced production, consumption, and investment, as well as unemployment. Under our circumstances the imbalance must be discontinued by stimulating supply.

[Varga] From this vantage point, how do you regard the tight money measures that reduce liquidity, as presently introduced by the Hungarian National Bank [MNB]?

[Kadar] Monetary policy is the tool for fine tuning in developed market economies. In economies where the imbalance is great and stems from structural problems, and where the money and capital markets are undeveloped, monetary intervention produces little results. I would add to this that monetary direction assumes particularly large risks when information concerning real processes is so unreliable. Let me refer to a FIGYELO (No. 40, 1991) interview with MNB Deputy President Sandor Czirjak, who had acknowledged this fact.

Withholding money from the economy could be justified if we had a huge trade surplus, but this has not been the case in 1991....

[Varga] During the first eight months of the year a 1.4 billion [unspecified currency] trade deficit has been recorded in convertible currency relations.

[Kadar] This figure should be reduced by half a billion [unspecified currency] due to deliveries for which no payment is supposed to be received. But I would also be more cautious in judging the balance of payments surplus, because, among other things, stray capital, so called, from neighboring countries that experience turmoil also improves the balance of payments picture.

I agree with a reduction of credit costs, moreover, with a larger one than the presently authorized one percentage

point reduction. This should be done in the form of paying positive real interests and by stimulating savings. I would like to hope that MNB actions would not retard the improvement of our competitiveness and export potential.

[Varga] Some people love to talk about an export offensive. Is this really what they mean, or are they talking about being constrained to export, a constraint that conserves the old structure and carries the threat of exhaustion?

[Kadar] Crisis and success are simultaneously present in the Hungarian economy. This also applies to exports. Our success in exports has been nurtured by several roots thus far, by the export competition system, for example, whose effects can still be felt. But there was hardly any interest this year in the heavily changed competition system. Last year they consummated 270 agreements within this program. This year there were only 17 agreements. We will feel the negative effects of this in 1992. The other factor is money needed to make an export offensive. This year there were 5 billion forints in the trade policy fund. The 1992 budget stipulates 4 billion forints. Accordingly, we are not well off in terms of resources. Export performance should be viewed particularly in light of a revalorizing exchange rate policy. In 1990 producer prices increased by 23 percent, this year they increased by 37 percent, while the forint had been devalued by 15 percent since February 1990. At present we can rely mostly on economic diplomacy and on organizing and mobilizing work. In order to make an export offensive we would have to have an export-oriented economic policy, while the present economic policy is much more based on the reduction of short-term budget deficits.

[Varga] In other words, you do not see any justification for another devaluation of the forint.

[Kadar] It is my view as an economist that exchange rate policies play a role not only in preserving the worth of money, but also in the favorable development of external economic processes. Putting to work exchange rate policies is particularly warranted in periods when the government is short on means. The increasing trade deficit suggests that today there is a greater interest in devaluation than in revaluation.

[Varga] Don't you think that your concepts regarding the budget and exchange rate policies would strengthen Public Enemy Number One, i.e., inflation?

[Kadar] The forces that propel inflation this year will weaken in 1992: The budget deficit will be smaller, there will be no new payment and settlement system in eastern trade, there will be no need to strongly reduce budgetary support, and inflationary expectations will also weaken. And, finally, we must not forget about strengthening supply-side competition, the improvement in the rate of efficiency, and, hopefully, in the anti-inflationary effects of state household budget reform. An 8-10 percent drop in the inflation rate may represent a turning point; it will

lay the foundations for reducing inflation in 1993 to below the 20-percent rate and to an approximate 10-percent rate in 1994. These are realistic, achievable limits; accordingly, there no longer is a need to dramatize the threat of inflation.

[Varga] An increasingly smaller part of foreign operating capital comes from professional investors, i.e., a relatively small number of foreign investors may be regarded as strategic partners.

[Kadar] Yes, this is a significant issue. The largest investors—GM, Suzuki, GE, and Ford—are strategic investors. It is hard to judge the smaller investors because we do not have an accurate picture of the character of the investment. Most certainly, it is not sufficient to examine the amount of capital that has been invested in a given period. The 1990 and 1991 average of foreign investments amounts to 3 percent of the GDP. It would perhaps be more important to analyze the contribution this capital made to modernization. In this conjunction I would like to mention that foreign financial support provided in the form of aid amounted to less than 0.5 percent of the GDP in 1991-92, i.e., its role is small in terms of modernization.

[Varga] As of recently, Prime Minister Jozsef Antall frequently voiced the opinion that the West had not prepared itself for the collapse of communism. I wonder, do you think that the Hungarian Government has a strategy to realize its integration with Europe?

[Kadar] We do have a strategy, but for various reasons I do not want to make this matter a part of ongoing public debate. Anyone could learn about the goal, but we are not talking in public about the methods and the extents.

Within six weeks, we will have guidelines concerning financial support by way of the agreement on association with the EC, and similarly about the flow of the labor force, agricultural trade, the industrial division of labor, and alternative methods of technological cooperation.

[Varga] Certain political factors are excessively confident about stability in Hungary, you, on the other hand, just mentioned a loss of speed and a significant loss of time....

[Kadar] Within this region Hungary is the island of stability, and in this regard, relatively, the bloody events in our neighborhood play a role. These events favorably expand Hungarian society's limits of tolerance. But it would not be advisable and one cannot build a rational economic policy for the longer term on the basis of these psychological effects. Accordingly, we do have opportunities, but it depends primarily on us how we use those opportunities.

Advance Look at New Corporate Tax System

92CH0127C Budapest FIGYELO in Hungarian
17 Oct 91 p 17

[Article by Emilia Sebok: "Corporate Taxes: 'Benefits Without Imagination'"]

[Text] Last week's cabinet meeting decided to return draft legislation on corporate taxes to the Finance Ministry with instructions to tighten the screws, so we learned. Accordingly, the struggle over who should pay how much has begun anew.

Nothing concerning corporate taxes has been finalized as of the middle of October; everything described in this article is in the proposal form and amounts to a list of possible elements in the tax system.

The preamble to the proposal states that the purpose of the new tax law is to produce revenues to cover expenditures incurred in the performance of state functions, to equalize economic conditions, and to encourage investment. It emphasizes that the government regards the financing of public expenditures as the primary purpose of taxation and that from the standpoint of economic policy it includes the purpose of stimulating capital investments only.

Whether the primary purpose of taxation is to finance governmental functions or to serve as a tool of economic policy and influence the state economy has been a continually recurring issue in debates among tax professionals and entrepreneurs. Interest groups representing entrepreneurs prefer to make taxes appear as economic policy tools, (see, e.g., the article entitled "Tax Trap," FIGYELO No. 40, 1991), and this is understandable from their standpoint. Nevertheless, historical experience and the practices of developed countries show that the primary purpose of taxation is to pay for public expenditures and that the state has other, more efficient, and better targeted means to influence the economy.

Based on all the above one could say that the tax system slated to take effect at the beginning of next year provides too many benefits to certain branches of the economy, for certain activities, and based on some other considerations. The broad array of these benefits proves that the state does not provide benefits on the basis of economic policy considerations.

Accordingly, as of this moment it seems that all the pledges to hold back on benefits were meaningless. The various lobbies were apparently stronger than any determination made by the central government. Or else, as we mentioned this before, the cabinet might have gotten hold of itself at its last meeting: It returned the draft to the Finance Ministry with instructions to make the provisions more stringent.

Corporate Taxes

We must still explain why we are talking about corporate taxes because a tax of this kind has not existed in

Hungary before. Simply put, this tax is going to take the place of the entrepreneurial profit tax. From the standpoint of many businesses the change in name will make no tangible difference; nevertheless, the new tax is based on a new theory of taxation, one that is different from what we had before, and it is consistent with approaches to taxation used in developed market economies.

Entrepreneurial profit taxes affect or could affect any and all income derived from entrepreneurial activities, irrespective of the form of organization in which an enterprise chooses to operate. As its name indicates, corporate tax will be paid after income earned by corporations engaged in business and by cooperatives. But state enterprises will also have to pay this tax after their profits, and this will sound less strange upon the enactment of a law mandating state enterprises to transform into corporations.

Accordingly, on the effective date of the corporate tax law it will become clear that individual entrepreneurs must pay personal income taxes only after income derived from their enterprising. The choice between paying either personal income taxes or entrepreneurial profit taxes available thus far is going to be discontinued, but individual entrepreneurs and agricultural small producers who declare their intent to pay entrepreneurial profit taxes may pay corporate taxes until the end of 1993. They will have sufficient time available to accomplish the transition.

Gaps

The state, as an owner, is not going to be able to collect dividends in the classical sense of that term before transforming state enterprises into corporations. Instead of paying dividends, state enterprises presently contribute to the state based on the value of the state property they manage. The amount of these contributions is calculated at standard rates and is applied uniformly in all branches of the economy. In other words, by not taxing state enterprises on the basis of their income and developmental needs, the state has surrendered its apparent ownership rights over state enterprises.

The 1992 budget does not provide for the taxing of state enterprises based on their income and developmental needs, although, preferably, annual budget laws could specify corporate income tax rates applicable to the various branches of the economy, on the basis of which the previous year's income of state enterprises not yet converted into corporations would be taxed.

It will take some time before corporate and personal income taxes can be streamlined. Consistent with the principles of corporate taxation, dividends and shares paid by corporations to each other are going to be taxed only at the place where the income was created. In contrast, private persons will have to pay personal income taxes after dividends already taxed as corporate income.

This kind of double taxation will be hard to justify in the framework of a system proclaimed as stimulating investment and encouraging the accumulation of capital.

Benefits

Corporate taxes will be levied at a 40-percent rate. (As the table indicates, both higher and lower tax rates exist in the world, but considering all tax revenues, developed countries collect a substantially smaller proportion of taxes in the form of corporate taxes than Hungary does in the form of profit taxes.) The average tax burden will be substantially less than 40 percent, however, because of the large number and extent of tax benefits.

Corporate Taxes in OECD Countries
(1991, in percentages)

| Country | Government | | | Total Corporate Tax |
|---------------|------------------|-------------|-----------|---------------------|
| | Central | Territorial | Local | |
| Australia | 39 | — | — | 39 |
| Austria | 30 | — | 12.9 | 39 [as published] |
| Belgium | 39 | — | — | 39 |
| Canada | 28.84 (23.84) | 12.9 (11.9) | — | 41.74 (35.74) |
| Denmark | 38 | — | — | 38 |
| Finland | 23 | — | 17.2 | 40.2 |
| France | 34-42 | — | — | 34-42 |
| Germany | 36-50 | — | 13 | 44.3-56.5 |
| Greece | 46 (40) | — | — | 46 (40) |
| Iceland | 45 | — | — | 45 |
| Ireland | 43 (10) | — | — | 43 (10) |
| Italy | 36 | — | 16.2 | 47.83 |
| Japan | 37.5 | — | 12 + 6.49 | 49.98 |
| Luxembourg | 33.33 | — | 9.09 | 39.39 |
| Netherlands | 35 | — | — | 35 |
| New Zealand | 33 | — | — | 33 |
| Norway | 27.8 | — | 23 | 50.8 |
| Portugal | 36 | — | 3.6 | 39.6 |
| Spain | 35 | — | 7 | 35.34 |
| Sweden | 30 | — | — | 30 |
| Switzerland | 3.63-9.8 | 4.32-12.96 | 5.2-15.6 | 13.14-38.31 |
| Turkey | 49.2 | — | — | 49.2 |
| Great Britain | 34 | — | — | 34 |
| United States | 34 | 6.5 | — | 38.3 |

Companies wholly or partly owned by foreigners will continue to enjoy significant tax benefits, despite all just

criticism. Among these, companies that pursue so-called priority functions will enjoy a 100-percent tax exemption during the first five years of operation, subject to compliance with other criteria. Virtually no productive function is missing from the list of "priority" functions, however. Almost any entrepreneurial activity pursued with foreign participation enjoys extremely favorable tax treatment. Animal breeding is an exception. This activity is subject "only" to a 60-percent initial tax exemption if pursued by a joint enterprise. In contrast, a 100-percent exemption is granted during the initial years if the same company also processes meat products or brews beer. Granting tax benefits like these seems like a government-sponsored robbery of public funds.

But there is more to come. Probably no one would object to granting tax benefits to entrepreneurs engaged in health care or cultural activities, or in restoring dilapidated historical buildings. But the already existing record should have served as a cautionary sign to the government about the extent to which it was possible to

abuse such tax benefits in the past, e.g., in conjunction with the development of backward settlements or in the framework of new entrepreneurial ventures. And yet, tax benefits related to the development of backward settlements are here to stay in the long term, and those for new entrepreneurial ventures have also been extended somewhat. But it is the tax benefit related to interest paid on investment loans for agricultural and food industry activities that best demonstrates the total lack of economic policy considerations in the course of handing out tax benefits. In virtually all food economy investments half the amount of interest paid on loans reduces the corporate tax. While Hungarian canned goods pile up in warehouses and it soon becomes possible to fill swimming pools with wine, the government grants tax benefits as long as these branches of the economy increase their capacities.

In other words, the corporate tax system now being worked on shows more of a lack of economic policy than an effect exerted by economic policy on the tax system.

U.S. Computer Firm Digital Opens Warsaw Office

*Warsaw RYNKI ZAGRANICZNE in Polish No 123,
12 Oct 91 p 2*

[Article by (Slaw): "Digital Equipment Poland Coming in November"]

[Text] One of the world's leading producers of computer equipment, the American firm Digital Equipment, will open a branch in our country in November. Digital Equipment Poland will be the third, after Hungary and Czechoslovakia, branch of the U.S. computer giant in Central-Eastern Europe.

The head of Digital Equipment Europe, Carlo Falotti, said during the Telcom '91 international exhibit taking place in Geneva that the branches in Warsaw, Budapest, and Prague will become the firm's three main expansion centers in the central and eastern part of the Old Continent.

This region is one of the priorities in Digital Equipment's long-range development strategy. It is here, according to the American firm's experts, that the next important battle in the computer war that the United States has been waging with Japan for almost 10 years will be fought. Success on the Polish market, which is believed to offer the best long-range prospects of all of the countries of the former CEMA, may be very profitable for both sides. Digital estimates that total sales of computer equipment in Poland will increase from \$200 million in 1991 to \$600-650 million in 1995.

Digital Equipment Poland is uncontroversial proof of the growing interest of foreign capital in our country. The fact that leading Western firms, including those in the high-tech branches, are entering our market is highly significant and unquestionably profitable.

Analysis of Earning Capacity, Profitability Noted

*92EP0050C Warsaw GAZETA BANKOWA in Polish
No 39, 29 Sep-5 Oct 91 p 6*

[Article by (WJG): "A Deficit Economy"]

[Text] An examination of the Polish economy by the Central Planning Office [CUP] reveals an increasingly grim picture. The potentially most dangerous sign may turn out to be a drop in the earning capacity of enterprises. Their liquidity crisis can no longer be attributed to technical reasons. Many of them have permanently lost their ability to produce below costs.

The profitability indicators become worse with each successive quarter. Last year, net earning capacity averaged 31.1 percent; in the first quarter it was 13.1 percent, and in the first half-year it had already dropped to 9.4 percent. CUP made a detailed examination of selected enterprises in 23 branches of industry, seven in construction, and a detailed analysis of 160 industrial branches and 27 construction branches. The enterprises examined by CUP had a net earning capacity indicator of 10 percent after the first six months. The profitability

indicator (net profit for turnover) is negative, which means that the enterprises have no funds for development. In any case, this is not very significant, because last year they did have funds and did not develop either. Eleven branches of industry (coal, fuels, energy, ferrous metallurgy, hides, fodder, waste utilization, textile, means of transport, electronics, wood and paper) have a gross earning capacity of less than 10 percent.

In addition to the lower gross earning capacity, the drop in profitability of sales is due also to much larger financial encumbrances. Sales tax constituted 53.2 percent of the financial result, tax on growth of salaries and wages constituted 20.1 percent, and the dividend made up 30.3 percent, which indicates a three-fold growth in comparison with last year. In the first six months, 11 branches of industry recorded a negative profitability. The worst were: coal (- 8.1 percent), power industry (- 6.6), means of transport (- 6.2), and textiles (- 5 percent). The best results were in the printing industry (+ 11 percent) and nonferrous metals (+ 7.6 percent).

The drop in earning capacity was caused primarily by the growth of costs. The cost indicator rose by 7.4 percent, and in the enterprises that were examined it reached 82.9 percent. The growth of costs, in turn, was the result of a rise in the price of energy and materials. We must remember that last year these prices were still partly controlled and understated. When "marketization" reached this area, the moment of truth arrived for the enterprises. Depreciation costs and fixed costs were also high, which was due to the shrinking degree of utilization of production assets.

In the second quarter, the number of enterprises operating at a deficit rose rapidly. At the end of June, 704 enterprises, i.e., one-fourth of those being examined, showed a loss. In the second quarter, their number rose over 40 percent (by 206). A high share of deficit enterprises, in comparison to the total, appear in the following industries: coal (63 percent), textile (44 percent), power (42 percent), leather (34 percent), clothing (33 percent), means of transport (30 percent), wood (30 percent). These figures indicate that mass bankruptcies can be expected in the next few months.

The earning capacity of the construction industry looks somewhat better. In the enterprises examined, earning capacity in the first six months amounted to 18.9 percent and profitability 6.4 percent. In the second quarter, the earning capacity indicator rose. At the end of June, 219 construction enterprises showed a loss, i.e., 14.7 percent of the total examined. In comparison with March, the number of deficit enterprises dropped 10 percent.

CUP not only tries to analyze the situation as it now stands, it also tries to give prescriptions on how to overcome the difficulties. The "Assumptions of Socio-economic Policy for the Year 1992," prepared by the

government, contains, in addition to forecasts on development, recommendations on possible changes in economic policy. CUP specialists assume that the recession and the difficulties that the enterprises are experiencing are due not so much to the necessary transformations from a planned to a market economy, as they are to government policy. Therefore, they recommend that this policy be changed and that the recession be recognized as being the greatest threat. They also agree to another inflationary spiral, which they regard as a lesser evil than a deepening recession. The former would be based, among other things, on a "flexible rule of granting investment credit to enterprises," which probably means a departure from a uniform interest rate and, as will follow, the introduction of credit limits. The enterprises would be divided into several groups, depending on the results they achieve, and each group would be treated differently. Those given preference by the government could count not only on "flexible credit rules," but also on government investment guarantees, subsidies, and exemption from dividends.

Agriculture policy would come down to granting cheap credits and interventional procurement of farm crops in order to maintain strategic reserves of farm commodities (and also their prices). The monetary policy recommended by CUP would consist of lowering the interest on investment credits (with valorization of the sum of the credit *ex post* by the degree of inflation), reducing the interest rate on *a vista* deposits, and introducing a flexible exchange rate instead of the present fixed rate.

Obviously, the CUP proposals would have inflationary effects, and what kind of effects these would be would have to be defined more precisely. What is surprising is the presentation of recommendations that are in conflict with the present government policy. A particularly drastic example is the proposal for universal privatization by a method rejected by Minister Janusz Lewandowski. But we hear that the "Assumptions" discussed at a meeting of the government were regarded as a good starting point from which to make revisions in the economic policy that will be implemented next year.

Development of Banking Supervision Discussed

92EP0050A Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 4 Oct 91 p 1

[Interview with Stanislaw Bereza, director of the General Inspectorate for Banking Supervision, by Pawel Jablonski; place and date not given: "Mistakes Cannot Be Ruled Out"]

[Text] [Jablonski] The president of the National Bank of Poland [NBP] employed you in this position as a specialist in banking supervision. Where did you get your knowledge about banking-supervision methods?

[Bereza] For 12 years I worked in internal supervision in Barclays Bank, the largest English bank that employs about 100,000 people in all of its branches scattered throughout the world. In other words, this was a bank

that employed almost as many people as were employed in the entire Polish banking system. The internal control organs in this bank examined the liquidity, capital, and operating efficiency of all of the branch banks. My job was to analyze banking risks. I wrote a book about that.

[Jablonski] In your opinion, as director of banking supervision, what were the reasons that the Art "B" swindle came about?

[Bereza] It is hard to talk about who was at fault. I believe there were many reasons for it. The fact that the swindle happened was, to a degree, due to the lack of experience in conducting a market economy. Another was the inadequacy of the system of accounts-settlement between banks. This was due, among other things, to technical shortcomings. There was no suitable transfer of information on the movement of money, nor were the consequences of this understood. It seems to me that this was, to a certain degree, neglect on the part of the headquarters of the NBP, as well as individual banks. In effect, gaps appeared in the system, which were taken advantage of.

An irresponsibility in the behavior of certain banks also was revealed, banks which knew of the imperfections in the system and, despite this, allowed them to be exploited.

Supervision discovered certain signs of this swindle quite early on, but these signs were not fully appreciated by the banking supervision itself, NBP, or other banks. I think that communication procedures within the central office had not been developed. That is why, in the future, special channels for the transmission of early signals from supervision must be created.

[Jablonski] Do you believe that in the near future we will be witness to other swindles in the banking system?

[Bereza] It seems to me that no one can say that such cases are unavoidable. All we have to do is look at the large number of banks established recently. The department responsible for issuing permits to them was very small, in comparison to similar structures functioning in the West. Also, the banking law in effect was too liberal and the pressure to establish new banks was enormous. At the same time, there was a shortage of skilled banking personnel in Poland, not enough to satisfy the needs of the fast-rising number of banks.

As a consequence, the process of checking and verifying the histories of people who are to conduct the operations of a bank, was far from ideal. In England, such people are investigated in great detail. I believe that proper selection of the person who is to head up a bank is of the utmost importance if the bank is to be run correctly. It is true that there are other considerations, but if people are irresponsible there is nothing that will guarantee that the bank will function correctly.

Another matter is the rebuilding of the banking sector. Personally, I do not believe that it is possible to painfully go from full control over banks to autonomy. I believe that mistakes in building a banking system cannot be ruled out, nor can swindles.

[Jablonski] What needs to be done to lessen the danger of the occurrence of more swindles?

[Bereza] The most important way to avoid more swindles is to introduce a perspicuous system of reporting. At this time, supervision lacks certain "lookout tools," which would make it possible to catch bad signs in the banking system on time. In America, only one-fifth of all abuses in banks are caught.

That is why it is most important to take step-by-step measures, such as the recently introduced duty to conduct audits of bank balance sheets. At present this will be done mainly by Western auditing firms. But they do not know the details of Polish banking. It will take years before strong Polish firms will appear. As distinct from the West, there is yet no formal institution which trains accountants specializing in banking. It is also important for Polish banks to introduce internal controls. In Barclays Banks such control was extremely important and prevented all types of abuses.

We must understand that building a safe banking system is a very costly investment. Polish banks themselves must introduce their own internal controls. Naturally, the shaping of such a system will go on for years.

[Jablonski] How many years do you believe this process will take?

[Bereza] If in England or France the training of good supervision inspectors takes five to six years, it is hard to expect that in a country which has no formal structures for training auditors it should proceed quickly.

[Jablonski] What are the irregularities found most frequently in our banks?

[Bereza] I believe that the banks are too closely linked to the enterprises to whom they grant credit. I am not sure that reasonable rules for granting credits are applied in all cases. Furthermore, there is an entire range of pressures applied on banks, e.g., political. They are forced to give credit to large plants. I also have reports that in some private banks credits are granted to a party which has privileges in that bank. Such links in the West would be impossible. Considering the state of the economy, such irrational granting of credit by some banks, both state and private, is totally irresponsible.

Of the other irregularities in the Polish banking system I would mention the lack of certain caution in planning the balance statement. No distinction is made between speculative or temporary income and real, healthy banking. Bank presidents, in describing the source of their bank's income, talk about short-term transactions. Such operations carry with them a great risk and this kind of activity does not build long-term profitability for

the bank. The effect of such policy is the present overall decline in the banks' capital coefficients.

[Jablonski] Supervision has ongoing control over the bank's financial status. Do any of the Polish banks have financial problems right now?

[Bereza] Some banks, yes. If we look at the credit portfolios of certain banks it can be said that they are in very bad shape. This pertains to both private and state banks. At present, some banks are instituting special programs which are supposed to eliminate the threat that ensues from the worsening of their capital indicators. I believe that the managements of some banks should become aware of the need to have the necessary amounts of their own capital. Only their own capital can be a safeguard for the transactions being conducted. And I am afraid that some small banks do not realize that times have changed and that they cannot count on high-level influence.

Banking supervision reacts to the lowering of capital coefficients in particular banks. We have now ordered a couple of banks to submit a program to improve these coefficients.

[Jablonski] What are the basic differences in the functioning of the banking supervision system in Poland and in England?

[Bereza] As an employee of a commercial bank, I worked "on the other side." I think that there was always better cooperation between the internal supervision of my banks and the supervision of the Bank of England.

Insofar as improvement of supervision is concerned, the changes made recently in the banking law bring Polish supervision closer to that of the English. But I am still not fully able to proceed against banks. First we send a recommendation and if it is not followed, then we intervene inside the bank. I cannot assess a penalty if my recommendations are not followed, as can be done in England. I lack this intermediate means. Anyway, in England it would be unthinkable not to react immediately to any recommendation from the Bank of England.

English banking supervision employs approximately 300 people, but in addition it can utilize the services of auditing firms in making inspections and preparing various reports. I employ a total of 60 people, including 30 or so in Warsaw.

Polish supervision controls only those institutions which obtained a banking license. In England, the range of supervision control covers many financial institutions, e.g., brokerage firms.

[Jablonski] What can you say about the present state of banking supervision in Poland?

[Bereza] Everyone imagines that we have a large team of trained inspectors who are ready at any moment to travel and check on any bank. And I have only a few experienced inspectors in Warsaw. Soon seven supervision

employees will go to France for a two-week training course. Right now I do not have even one employee who could take over the job of instituting of a new plan of accounts for banks. At the moment I am looking for skilled people who want to work in supervision. I am organizing training for them. But they are now earning three times less than the commercial banks pay.

[Jablonski] You said earlier that Polish candidates for founders of banks were screened too superficially. In England, is it possible for a person against whom state treasury charges have been made or who is not believed to be a responsible person, to get a license?

[Bereza] In England, any court proceeding at all precludes the granting of a license. Nor will it be granted to a person who does not have the respect of others. Recently in Poland, the licensing of banks came under the purview of banking supervision and in connection

with this all kinds of public persons are telephoning me and everyone of them has some kind of personal interest. They say to me, "please arrange a license for this bank quickly." I reply, "but there is a procedure for this," and then they say, "but you know who I am."

[Jablonski] Does banking supervision also concern itself with the laundering of "dirty" money in banks?

[Bereza] Banking supervision is not a banking police. We are concerned about the safety of deposits made in banks and whether the banks operate in according with the banking law. In Poland, this is not understood. Prosecutors, the Supreme Chamber of Control, etc., ask us to look into certain matters. They think that our duties include the investigation of various abuses. I just organized a group of lawyers who will define where the responsibility of our supervision ends and where that of other institutions begins.

Government Coalition, Political Figures Criticized

92BA0086A Bucharest ROMANIA LIBERA
in Romanian 18 Oct 91 p 1

[Article by Octavian Paler: "Political Styles"]

[Text] The "Stolojan style" seems to be based on what I would call "antirhetorics." The new prime minister's speech in Parliament was dry, concise, and precise, without artifice. The current prime minister did not promise "miracles" like his predecessor and I think he was right not to. He called some things by their names regarding the deplorable condition of the economy and exhibited a moderate, cautious, and precisely therefore, sober optimism. Stripped of any rhetorical adornment, the speech impressed me as equally free of any demagoguery, something that I would say is almost an event in a political spectacle in which it is becoming increasingly difficult to distinguish the half truths from the complete lies. Listening to him, I was thinking: After all the demagoguery that flooded our ears in waves, we have come to the point where a speech without illusions sounds almost reassuring!

As for the coalition that Mr. Stolojan put together after laborious consultations, it is rather ambiguous. My impression is that it was built upon a certain loss and an uncertain hope, which the coming months will better clarify. The loss refers to the broken unity of the opposition, which may yet have the worst, still hard to predict consequences; the hope is that we will have less corruption than under the Roman government, if not more heat this winter. Some people fear that this government of openness, or rather of "national semiopenness," as it has been described, may be steered from the shadows by the ambitious former premier, who would be content to rule by proxy if he cannot do it directly, but Mr. Stolojan's clear aridity, devoid of cheap rhetorical spice, seems to recommend a pragmatist determined to do his duty within the confines of his own convictions, rather than become a servile agent and a tool for the party that designated him for the honor of being prime minister. The future will show who was right. Anyway, the installation test allowed us to hope in a possible truth shock therapy, albeit initially limited to the economy, with the aid of which we may begin to pull down the too many stifling smokescreens that have been darkening our lives for almost two years.

Among these "smokescreens" I would place the long series of televised interviews with notorious figures in power, which in the past few weeks served to illustrate the style of "fighting without an opponent."

Let me explain. Mr. Roman comes on TV and dispatches Mr. Birladeanu to hell. Another evening, Mr. Birladeanu comes on and denounces Mr. Roman as an agent of hell. A few days later, Gelu Voican Voiculescu throws a few firecrackers in the direction of various headquarters, including the SRI [Romanian Intelligence Service]. Rumor has it that the firecrackers in question were manufactured at the FSN [National Salvation Front]

general headquarters for a definite purpose, but who now can tell anything for sure in our country? It's so bad we're even doubting our own doubts. Shortly thereafter the firecrackers are tossed back, still smocking, much to our amusement and perplexity, as spectators of a new version of the ancient Roman slogan, "*panem et circenses*," "bread and circuses." We never get two principals "face to face" on the screen, as is the case in less original countries engaged in open combat. No. Our principals come one after the other, each with his own idiosyncrasies and his promisory notes. Seated across a reporter, possibly with the answers nicely pretyped to make sure that the TV man knows what to ask "spontaneously," he can fence, can simulate, can hit, can insinuate, and can conceal what he wants to conceal and reveal what he wants to reveal without any danger of getting a rejoinder on the spot. Every three sentences we hear the word "country" and a suggestion that whoever is being exco-riated is an impostor. Two or three evenings later the "fight" is resumed in the reverse direction, with the other combatant solemnly assuring us that in fact, the impostor was the person who had been so resolutely talking of imposture.

In the end one inevitably comes to wonder, as Bogdan Ghiu did in the magazine "22," what do we care about the quarrel between those personages? Why don't they tell each other what they have to say without taking us as witnesses? In other words, we are urged to do our dirty laundry in the family, away from foreign eyes, in case of, God forbid, blood stains or firecracker burns on the shirts, but they can settle their debts in full sight of everyone? Why do these gentlemen drag us into the vanities, ambitions, calculations, and spite that tie them together and separate them? Don't we have enough of our own battles? Of course, some of them have most clearly demonstrated their enormous attachment to the status of being our "saviors" and that, if need be, should we no longer want to be rescued as we have been to date, they will rescue us by force, they will even rescue us from ourselves if necessary, by shooting us or tossing tear gas grenades in our chests, but why do they tell us things they should straighten out in private? The claim to have us as witnesses to a personal fight that has nothing to do with a struggle of ideas, but at the most with a struggle for power, is totally inappropriate and abusive, and these gentlemen should indeed be forbidden to treat us as a gallery. That's insulting. If they absolutely insist on taking each other to task, let them confront each other in an honorable dispute, face to face, so we can hear what they answer to accusations when they're looking each other in the eye. Because like this, each on his own, it's easy. One comes out into the "arena," and pushes around the shadow of an absentee. Thank you very much. Not to mention that while we do have "circuses," the same thing cannot be said about "bread," although I think that "bread" may be more urgent. That's why the Romans put it first in their famous "*panem et circenses*."

Generals, SRI Chief Queried on Miners Riots*92BA0084A Bucharest ADEVARUL in Romanian
9 Oct 91 p 2*

[Interviews with several Romanian Army generals by Constantin Lupu, Peter Sragher, and Ion M. Ionita; places and dates not given: "The Confrontation"]

[Text] Barely had the fourth miners' raid on Bucharest ended, when it became the subject of all kinds of scenarios. Versions upon versions burst on our already traumatized nation. The information fog apprised us of so much that in reality we no longer know anything.

The journalistic endeavor (we'd rather not call it version) presents both an advantage and a disadvantage: It takes place fully in the open and everyone learns about it at the same time, even those directly involved in the events, or those from whom historic revelations are expected.

The investigation we bring to your attention today is of a special kind. This is a simultaneous interview with Romanian Army generals and it touches on the unfolding of the events, especially their dangerous implication for the state order. Those kind enough to answer our questions were Lieutenant General Nicolae Spiroiu, minister of national defense; Brigadier General Dr. Paul Cheler, commander of the Transylvania Army; Major General Dumitru Polivanov, commander of the First Army and of the Bucharest Garrison; Major General Ilie Marin, commander of the Third Army, and Major General R. Paul, commanding officer of the Bucharest Garrison Command. Editorial considerations prompted us to group the replies according to topic, whereby we did our best to preserve the spirit and letter in which they were expressed.

We viewed these interviews as a prelude to the peak event in the recent series of revelations: The press conference held yesterday by Mr. Virgil Magureanu, director of the SRI [Romanian Intelligence Service]. In fact some of the questions we allowed ourselves to address to him were taken from the views of the Army representatives.

[ADEVARUL] Could the events have been foreseen? When did you realize how serious they were?

[Polivanov] I have to say that we are not talking about how well founded were the reasons for which the miners came to Bucharest. Regardless of the nature of those reasons, political or social.... I'm talking only from a military viewpoint. And from that angle, to me they were assailants. Of course, they were Romanians.... But the way in which they set out, organized in the Jiu Valley, with all kinds of weapons (true, no firearms), as far as the Army was concerned, they were attacking.

[Cheler] I can tell you that from the beginning I realized that the miners were going to be violent, considering the attitude they took as soon as they began to get off at the Bucharest-Baneasa railway station. So much should be clear. They even turned down the forces of order who

wanted to escort them to the place where they said they wanted to have talks with the prime minister and with government members.

[Paul] Wednesday morning I learned that two trains with miners were on their way to Bucharest. Personally, I didn't foresee this kind of events, especially since the government had accepted their demands and a dialogue.

[ADEVARUL] Could the crisis have been toned down? Could the most dangerous aspects of the rioting have been averted?

[Paul] Even if it had been an enemy marching, it could have been halted by force. But how were we to fire artillery guns into workers? It would have been a catastrophe. The only way to stop them was by talking.

[Polivanov] Speaking as a military man, I would have stopped those trains somewhere on the way. Not by dismantling tracks or some such. That would have meant causing disasters. But signals, even ad-hoc signals, could have been posted along the railway. And soldiers. In other words: "Gentlemen, no one enters Bucharest! If anyone doesn't comply, we'll be forced to use force!" There could have been casualties, even fatalities, if they didn't comply. But they would have gone back. They wouldn't have had a choice. Otherwise we're not an army. Except that we have to think politically, too, even if we're not into politics. Such measures would have elicited totally unfavorable reactions everywhere. Nevertheless, an ambush could have been organized....

[ADEVARUL] And that would have been...

[Polivanov] ...Somewhere in route.

[ADEVARUL] Between Petrosani and Craiova?

[Polivanov] Well, on that one there are several alternatives. One is between Petrosani and Craiova, because the train allows for no escape from the ambush. Or it could have been equally well in open terrain, past Craiova, toward Bucharest. Stop the train. A complement of soldiers. Antiinfantry mines. Paratroopers. And under their cover someone could have come for talks. Those are personal opinions. I didn't discuss them even with the ministry leadership. Although we did offer some alternatives.

[Marin] Once the miners left, they could no longer be stopped by peaceful means. It has been said that we would have done better to disconnect the tracks. You realize what would have happened if a raging crowd had reached the road and started acts of violence, of road terrorism? Moreover, dismantling the railway could have affected all of us, including the Army.

[Spiroiu] From our viewpoint, the events could not have been averted by military means. In conditions of peace, when there is no state of emergency, in normal conditions that is, the Army cannot preempt such occurrences. Nevertheless, the Army did make some contribution to restoring normalcy. Namely at the point where a crisis

situation, so to speak, appeared between the presidency, the government, and the miners. At that point the MApN [Ministry of National Defense], through my person, endeavored to defuse the conflict.

So that is all the Army could do at a time of peace. Of course, if it had been war, we would have blown up the track, fired at the train, or bombed it. Many specific military methods would have come into question.

But such methods can under no circumstance be considered in time of peace. Particularly against our own conationals.

[ADEVARUL] Was the miners' raid just that?

[Marin] I am convinced that someone used the miners. The public, however, repudiated their action. Still, we mustn't give credence to sensational scenarios. The miners had their own objective reasons to take to the road. If someone had ordered me to, I wouldn't have been able to gather so many wretched people in one spot. I have to point out that they came with a mentality. I didn't hear them shout "bread," "sugar," or "meat"; "We put them there, we'll bring them down."

[Polivanov] There were several successive attacks, I would say, successive assaults. They followed the tactics of assault battalions. There were waves of attacks. Of course, we had our sources in the area who conveyed to us reports that made us think that if the miners hadn't been incited by people in Bucharest, their violence might have been averted. However, groups of civilians—of suspicious appearance, you realize!—some of them overtly egged on the miners: "Come on, man, let's go, let's finish off these guys!" Not to mention the fact that they were also joined by citizens who happened to be there. I had one report that some older citizens, perhaps pensioners, came in Drumul Taberei carrying miners' clothes in bags. When asked what was with it, they said they had paid 2,800 lei for it. And they said: "Let's go there, to the television station, to Parliament!" I also had reports that during the night citizens drove up to the television station in cars without license plates, got out in civilian clothes, put on miners' uniforms, and went to the television station fence with stones and fire bombs. Those are not rumors, those were actions observed by experts in such matters!

[Cheler] The arrival of the miners was also a political phenomenon. That much should be clear. They didn't come peacefully and they didn't come just to resolve their personal, social, and economic problems. Considering that they carried axes, iron bars, clubs, or other blunt instruments, from the beginning it was obvious that they didn't come for the problems they claimed they did. Whose game was it? We shall see... We, too, will be informed by those in charge.

[Paul] I cannot understand the explosion of violence. It was like someone pushed them. It is a mystery to me how it happened that the Parliament guards were disarmed and threatened with death. I would not have allowed any

such thing. Clearly there were instigators among the miners, who turned them back when they were on the point of departing. There's something I ask myself. Recently there have been purges in the SRI. Those people, all of them professionals and each with his network capable of being reactivated at any time, being now unemployed, are they our friends or our enemies? I am referring to democracy and the state of law.

[Spiroiu] Yes, I said it could have been an attempted coup. They were demanding the ouster of all the elements that ensure the state leadership: Down With the Government! Down With Parliament! Down With the President! Who would have been left in this country? Isn't that a coup? If the essential institutions of the state of law are under attack, then clearly that's a coup.

[ADEVARUL] What kind of influences were at work?

[Spiroiu] I also considered outside forces. Conceivably there could be foreign powers interested in destabilizing the situation in Romania. By various means. That's why I always said that in the new conditions, the Army does not defend the country only at the borders. The country is defended throughout its territory. Often such an economic strike can be exploited for political purposes and continued by an attack on the state. So there is the foreign factor. That is why I took measures, as I reported to Parliament.

[Polivanov] What's certain is that the movement took place in an anarchic manner. First the cordons were forcibly broken. When they came to the armored carriers, they climbed on them. Various leaders—theirs, but also civilians—were calling for various things. We also called through loudspeakers. The demonstrators didn't subside; clearly they had come with the intention of setting certain people in place and saying: "This is the government!" So it was an anarchic coup. It was said in the press that Cosma was offered the post of prime minister. Having seen such insistent attacks on the government building, although the government had yielded and had resigned and there was no one in the building, except us, the forces of order, I indeed wonder whether that wasn't what they really wanted!

[ADEVARUL] An organized... anarchy?

[Polivanov] Well, the miners didn't act completely at random, they followed leaders. Except that the miners from certain mines acted violently. Others didn't. Some even tried to tone it down. And something else. The youngest miners were the most violent.

[ADEVARUL] Was there a moment where the situation turned radical?

[Polivanov] When they brought the dump-truck and tied a cable to it in order to break the grilles at the entrance to the government building. From that point on, everything degenerated.

[Paul] Forces other than the miners were categorically at work. That wasn't their head. They were manipulated.

Also, it seems that someone is interested in destabilizing and denigrating the Army. There are attempts to artificially create dissent between the M.I. [Interior Ministry] and MAPN; at times the Army is bitterly accused of supporting certain political forces. Those who do so probably know that without the Army the Romanian land would have long been finished. We're really too much in everyone's way.

[ADEVARUL] How did your troops act? What were your personal observations?

[Marin] On Wednesday morning at 0530 and 0730 I talked with the defense minister on the phone. At his suggestion I agreed to meet the miners at the railway station in order to defuse the situation. The first miners came on the fast train No. 244 and were led by a vice-leader, foreman Caldararu, a level-headed man. The other two trains arrived a few minutes later chock-full of miners, including Cosma. At the beginning there was a civilized attitude of dialogue. We agreed that, accompanied by Caldararu and another few miners, I should establish telephone contact with Prime Minister Roman, leaving Colonel Ciubotea at the station as security. I talked to Petre Roman around 0845 or 0900, when he told us: "I'm getting on the helicopter right away and coming to Craiova." Caldararu answered: "Personally I don't want to come to Bucharest, but the men are wild. You should have come to Petrosani." Back at the station I found Cosma a changed man. Either because of drink, or under the pressure of his mates, he no longer agreed to dialogue and gave the order: "On the trains." I, the chief gendarme, the prefect, and the chief of police went back to the station to report to the premier about the developments. The trains were almost moving, when a group of 200-300 miners got off the last cars and began to ransack the station. They came at us, too, and I saw them, mean and ugly, breaking everything up. What struck me was the premeditation with which this group occupied the railway station. It was a quasi-military action, everyone knew what he was supposed to do, without stepping on each other or crowding the doors. During this time, the great majority of the miners stayed in the cars, while on the pier Caldararu was making desperate efforts to stop the vandalism. During the night a third train carrying miners was stopped by a power break at Cotofeni. The miners threatened atrocities, unless they were sent a Diesel locomotive. In connection with that incident, the television broadcast an unverified report that 1,800 miners were marching toward Craiova. We would have had to deploy troops in order to stop them and weapons would probably have been used. We sent a scout patrol and found out that the miners had not left the train. That was an instance of disinformation; I'm not saying it was deliberate, but the consequences could have been disastrous. On their return from Bucharest several miners got off and looted a store. That was how the miners' raid went in Craiova.

[Polivanov] Naturally, during those days—the 25th, 26th, and 27th—the troops in my two commands experienced very complex situations. At the time I was asking myself: If I am forced to order them to use their weapons, will my men do it? Keep in mind the blame laid on the Army. Of course, I wasn't worried about the cadres. Because, you see, you don't use weapons when you're in hand to hand combat and you see that that you're losing. Because by then it's no use! As anyone who's been in the military knows, weapons are used so that the assailant or whoever cannot come close enough to me to immobilize me. So, if I'm using weapons, I have to start from a distance. "Halt!" If he doesn't stop: "Halt or I shoot!" And if he still doesn't stop: fire in the air. And if even then he doesn't stop, then I have to shoot. Once we gave a demonstration of what it would be like if the Army were shooting in earnest. It would be a slaughter! That's why I say that, from a military viewpoint, we should never again arrive at this kind of situation. The Army, however, must be used as little as possible for such things, because we lose of our prestige. I'm not saying this with the idea that we shouldn't defend the state or its institutions. God forbid!

But we mustn't let it get so far. All possible measures must be taken. Regardless of how strong a personality one may be, one has to go and get in touch with those directly involved.

You think Parliament wasn't aware of this? But...

[ADEVARUL] Was there any actual chance of a military government?

[Polivanov] Military government? We don't need a military government in this country. We need professionals. Of course, professionals in the area of their portfolio.

[Cheler] We, military men, never agreed with this idea. In fact, I've been asked before, even by people in responsible positions (senators, deputies, other civilians). At the stage of establishing a democracy which we entered after the Revolution, a military government cannot resolve these problems. I'm not saying that the Army doesn't have cadres capable of managing the economy or perhaps of going into the political arena, but we are faithful to the decision of the revolution: The Army is outside politics.

[Paul] We are progressing toward a state of law, and a military government is not a solution worthy even of consideration. A dictatorship won't help us establish a state of law. Moreover, spreading this idea can only harm the Army.

[Marin] The Army is not involved in the struggle for power. Such a path leads to dictatorship. I heard that I was suggested for the prime minister post. But no one had contacted me before. I don't know Mr. Otto Weber. I would not have accepted, because I don't believe that one person can do everything well, and what I am good at is the military profession. I am a career officer.

Mr. Magureanu's Answers

At yesterday's press conference Mr. Virgil Magureanu was queried in connection with the "touchy" points featured in the reports of our interviewees. We cite from the tape recording:

[ADEVARUL] The military authorities hold information according to which the demonstrators were infiltrated by Bucharest residents who on the spot donned previously procured miners' uniforms. According to another information from the same sources, such elements drove up during the night in cars without license plates. Does the SRI have such information?

[Magureanu] We did get reports that, for example, miners' helmets were sported on heads that didn't come from the Jiu Valley. Information that at the time of departure from the Jiu Valley miners who stayed behind loaned at the least helmets and lamps to those who went, is now being verified in the field. It has also been verified that some of those who came did not belong to what may be called the "stable community" of miners, but were especially young men with very little experience in mining, while others had had their work contract cancelled several times. The loan of gear was practiced in Bucharest, too. Albeit in few cases. There was never any particular merger between the groups of miners and those of the Bucharest trouble-makers who insisted on making their own contribution to the attacks on government institutions. It is very possible—we have had some reports to the effect—that in a few cases civilians and groups of miners exchanged gear; but I can already confirm that citizens of Bucharest did wear helmets. I would like to make a brief digression: Do not think that I want to in anyway trivialize this phenomenon of the arrival of the miners, or that I'm trying to steer certain currents of opinion on the wrong track by talking about the somewhat marginal or trivialized character of the groups of miners.

[ADEVARUL] Do you confirm or not the hypothesis that purged SRI professionals went into more than intermittent trouble-making? If yes, to what an extent?

[Magureanu] We are continuing to investigate. I cannot answer, however, I don't have the necessary data in order to now reply in the affirmative to such a question. We have been following and we continue to follow the activities of various such personnel, some of whom are currently concerned about entirely different matters or have joined intelligence structures created more or less ad-hoc around some of the groups existing in our country. I do not have positive data to affirm that such personnel were involved in this fourth, disastrous edition of the miners' epic. At least not directly.

[ADEVARUL] At one point the television reported a (partially false) item that the third train with miners was stopped at Cotofeni and that (here begins the panic-arousing news) 1,800 miners were marching toward Craiova. The incident is reminiscent of the famous

television manipulations during the revolution. What have you found out about that incident?

[Magureanu] I know that there were incidents in Cotofeni, that there were threats about setting the town on fire, and other forms of destruction. I think that in the end other means were found for the travel from there. In that respect, however, the details remain to be clarified later.

Government 'Slander' Campaign Against Opposition

92BA0086B Bucharest DREPTATEA in Romanian
19 Oct 91 p 2

[Article by H. Ornic: "The Great Slander Is On (Again)"]

[Text] Whether connected or not to the electoral campaign, the dirty method of the Great Slander was successful in winning the power and keeping it. In the absence of convincing arguments, the campaign acted as a weapon of mass murder in the hands of former Securitate and *nomenklatura* members intent on hanging on to their seats at any price. Do you remember how Mr. Ratiu was selling Transylvania to the Hungarians? Or the fact that Mr. Coposu (jailed by the Communists for 17 long years) didn't have to eat soybean salami, like poor Mr. Iliescu? Or the 13 June legions with green shirts and flags? Or the drugs found at the PNT-cd [National Peasant Christian Democratic Party] and the counterfeit money at the PNL [National Liberal Party]?

After 20 May and 13-15 June 1990, this plague, professionally spread by securists, was kept on low simmer, just enough not to be forgotten. But once the knife of disintegrating FSN [National Salvation Front] lies and imposture, of its unmasked arrogance and incompetence, and of the economy and society crashing into the abyss of chaos got to the bone of the power, the masters of the Great Slander were once again summoned. Because, if you can't measure up to the competition, you have to splatter it with mud and drag it down to the level of your dirt and lies. The new campaign, supported with all the familiar weapons (TV, press, and radio), spewing fire and slime from every opening (see Victoria Square, Dealul Mitropoliei, Cotroceni), fully took advantage, like the previous battle, of the efficient contribution of diversion.

The slanderers go by the bolshevik principle that "whoever is not with us is against us." Thus, according to the highest placed source in the state, that didn't have to account for the Iron Guardists spotted in the University Square: The PNT-cd and the Civic Alliance were the initiators of the fourth raid of the miners. In order to obviate the fact that the president—readily—gave in to the miners' request to remove the prime minister (something he didn't do about the TV chairman, whose resignation is being insistently demanded by the masses), the news that Miron Cosma had dinner with Ratiu was nonchalantly rolled out like some routine item. And just so as not to miss an opportunity to slander the monarchy, too, one newspaper—originally PRAVDA—spotted King Michael in Oradea. Mrs. Doina Cornea,

who has as much right to appear on television as the president or Comrade Brucan, was quickly accused of instigation for having requested that the head of the country lay down his mandate. Her arrest was demanded. And thus, what Ceausescu didn't dare to do, Iliescu will. After the bloodiest anticommunist revolution in East Europe! The Civic Alliance and the PNT-cd, the power's most horrible nightmares, were soon found to have been at the origin of the shortages and the dissatisfaction of FSN students. In view of that, the president of our peace gave them the green light for using force.

And as I said, everything is seasoned with provocations. Carefully preserved agents of an obscure force that we refer to as Securitate were forming and unforming a government in exile precisely when, where, and for as long as necessary, without, however, managing to rescue the government in the country. Lost labors! Next, other mercenaries from the "largest minority" were given free rein to proclaim an aberrant and scandalous autonomy for the Szecklers, precisely at the moment when it was needed to obviate the squalor, inflation, anarchy, the price hikes proclaimed illegal but forever maintained, to forget about Bessarabia, Northern Bukovina, and other territories wrested from the Great Union. The miners, victims of demagoguery and poverty, also took to the familiar road and were steered toward the lofty and patriotic objective of getting the prime minister out.

And thus, several balls were hit with just one blow, like in billiards: A bothersome prime minister, who didn't even manage to move Israel or the IMF to give us the loans we need like we need air or water, was jettisoned; the demand raised in Parliament to outlaw the PSM [Socialist Labor Party], the PCR [Romanian Communist Party], and the PRM [Romania Mare Party] was forgotten—the major victory, and the continued strengthening of the forces of repression was legitimized.

The consequences don't matter, the people will endure anything, and the president has become accustomed to all of his subjects' manifestations of "love." Success across the board!

The diversion is pushed so far that thousands of Bessarabians were left standing at the North Train Station by a train that left empty one hour earlier than scheduled, just to cure them of any yearning for Romania.

You must admit that this is more than you, or anyone in this wide world, could have dreamed up!

And thus, with slander, provocations, incitement, and political inconsistency we are once again getting ready for elections, which must bring a crushing victory for socialism and nationalism, together or separately. And keep in mind that in fact, the electoral campaign hasn't even officially begun!

Land Law Blamed for Reduced, Late Sowing

92P20047A Bucharest SATUL ROMANESC
in Romanian 31 Oct-6 Nov 91 p 4

[Article by Ion Cernea: "Should We Do Any More Sowing? Now, or in the Spring?"]

[Text] According to Ministry of Agriculture data, as of the end of September 66,000 hectares of wheat—only 2 percent of the 3.2 million hectares earmarked for sowing as of that date—had been sown. By the end of the best period for fall sowing—28 October—some 874,685 hectares had been sown, which represented 37 percent of the plan (which had been "reconsidered" in the meantime) calling for 2,353,320 hectares to be sown.

We are not questioning the accuracy of the different figures, based—as is stated—on options expressed by owners of agricultural lands validated and revalidated by the complicated land law which destroyed the old production structures without replacing them simultaneously with new, viable agricultural systems. We are discovering, with anxiety, that after the "organized" pillaging which accompanied the elimination of the patrimony of the cooperatives, millions of landowners deprived of the most basic means of work are finding themselves in the situation of not being able to cultivate their land. The tractor pool and the agricultural machinery belonging to the stations for the mechanization of agriculture [SMA] cannot be fully used because of lack of spare parts, fuels, and lubricants, and because of the disorganization of this important sector of activity. The tortuous activity of concluding contracts "among the three partners" (ROMCEREAL, the SMA, and the agricultural producers), for the production of stalky grains for the coming year continues with real difficulties, without knowing with certitude who will be "able to pay" at harvest time.

The immediate consequences of this unnatural situation—more difficult than any other time in the history of the country—are reflected, obviously, in the options of the landowners over the areas earmarked for fall sowing. Compared to the initial options, the areas earmarked for sowing this year have been reduced from 2.2 million to 1.6 million hectares for wheat and from one million to only 578,000 hectares for barley. In the opinion of one of the officials of the Ministry of Agriculture, in 1992 the country's granary will be a million hectares smaller. The leadership of the Ministry is faced with the need to import seed in order to extend the areas which will be sown to spring wheat and barley. We know, however, that the yields of these stalky grains are much lower than those of fall grains.

Economic calculations which are made by every farmer plead convincingly in favor of the use of all existing possibilities for sowing fall grains on the largest possible area. Last week's rain facilitated the preparation of the seed beds with minimum effort. At the present time, no field work is more important than the sowing of grain. If we do not exert an exceptional effort now we will not have anything to reap and allocate at harvest time. No one will excuse us if, because of the disagreements and misunderstandings of the moment, we endanger next year's grain yields. This is the first—and perhaps the most important—opportunity for remedying agriculture and remedying the economic situation of the country.

Situation of War Refugees in Slovenia

92BA0089A Ljubljana DELO in Slovene 21 Oct 91 p 3

[Unattributed article consisting of reports by unnamed DELO correspondents: "Far From the Bursts and Explosions of Grenades, Homesickness Stronger Than the Fear of Death Is Beginning To Be Voiced"—first paragraph is DELO introduction]

[Text] Among the refugees in Slovenia, the children are apparently the most affected; many mothers have returned to Croatia because they can lose their jobs for one unjustified absence from work; in Bela Krajina, half the refugees are Serbs; there is too little food and warm clothing.

Ljubljana, 20 Oct—A fairly spacious room with four beds, a table, cupboards, some clothing, food, small articles—and ad pages from the DELO newspaper with circled ads under "seeking work...." This is a picture of one of the typical bachelor's rooms at the reception center on Smartinska in Ljubljana, which is now a temporary residence for a young family from demolished Nustro.

Vlado and Dragica Perkovic, with a 10-month-old daughter, have been at that reception center for two full weeks. Vlado is one of the few younger men who have refugee status. After a bad traffic accident, he is still in a sickbed, although he says that he would like to find some sort of occasional work. He is an electrician by vocation, but he would naturally accept anything. Who knows how long this will last.

As we were told by the Red Cross representative on duty—otherwise retired nurse Vida Glesic, who has spent all of 35 years in pediatrics and has a great deal of the experience so necessary for working with children—between Friday and Sunday the center received approximately 60 more people, and so there are now 314 of them there, including 168 children, and among them 32 infants. Mostly expectant mothers and mothers with small children are living at the center. Just on Saturday they again received a newborn child.

Life at the home is managed by Red Cross representatives, two for each shift, and in addition, social workers, professional workers from the Advisory Center, and students also participate. During the week they are already organizing a kindergarten and a school.

Marko Gorenc from the local Red Cross chapter and Matjana Romih, a social worker from the Bezigrad opstina's Center for Social Work, say that the children have been taken care of fairly well. They always welcome any contributions, and they still have a shortage of warm clothing for adults and also disposable diapers, sanitary supplies, and slippers.

Social workers are also visiting refugee families that are housed with private individuals, and offer them the most necessary supplies. According to their data, more than

1,500 people have been housed with private individuals around Ljubljana. Karitas also provides a great deal of assistance to all of them.

On Sunday, only a few beds were still empty.

There are 194 refugees at the refugee shelter at Cesta v Gorice on the outskirts of Ljubljana. Most of them came from Vinkovci, Vukovar, Osijek, Karlovac, Sisak, Zadar, and Sibenik. Among them there are 92 children younger than 15, 25 men older than 65, and 77 women (mothers or women older than 60), and also some 15-year-olds with their grandparents.

Gordana Pirs (of the Red Cross) said that the children felt best, since on days when it was not raining they had a huge area for playing, and last week they received a lot of Croatian books and toys that were collected at Croatian elementary schools and kindergartens. The social service organized puppet shows, music, and film visits for them. It is different with adults, however. Some of them are happy to have a roof over their heads, but others are complaining about food, and especially about the prohibition against telephoning that was instituted two days ago. Gordana Pirs said that it could not have been otherwise, since there is only one telephone in the settlement.

In Croatia, the regulations have been made tougher. Just one day of unjustified absence from work means the loss of employment, and so many mothers have returned home, but the children, with their grandparents, have remained in Slovenia. Last week, approximately 200 Yugoslav People's Army deserters left; these were mostly Albanians, who went abroad or left for Rijeka.

Koper—In the coastal area, approximately 2,700 refugees from Croatia have been registered, the most to date. The number has increased considerably in the last 10 days, especially after the opening of the republic reception center at the Slovene Red Cross Youth Health Resort on Debeli Rtic, every last corner of which has been occupied (approximately 600 people, of whom more than 400 are children). Just yesterday, a large group of children from Duga Resa arrived at Debeli Rtic without their parents, with only teachers and tutors. The children are under stress.

The day before yesterday, the Slavija boat brought refugees from the Dubrovnik area to Rijeka, and from there three buses brought the refugees to Debeli Rtic as well. The people were hungry and cold, and most of them had not had an opportunity to bathe for a long time. At least they have now received those basic things at the reception center on Debeli Rtic. Assistance for them is coming from everywhere. It is being collected by work organizations with the assistance of trade unions, schools, the Red Cross, and local communities. Yesterday, for example, the international movement "Women's Initiative" from Italy donated 5 million lire in food. There is not enough food and clothing. This is partly because cold weather has set in, and now the

refugees need a different wardrobe, clothing, and also partly because there are more and more of them.

In any case, it is estimated in the coastal area that in addition to the 2,700 registered refugees, there are at least as many (i.e., there are more than 5,000 of them just along the Slovene seacoast!) who cannot obtain refugee status. In connection with them, Portoroz priest Franc Prelc, who is also helping to take care of refugees on the premises of the old Portoroz vicarage, thought that they were being done an injustice. In his opinion, it is not right that we in Slovenia should make distinctions among refugees, and especially that some should receive fairly complete assistance, while others, officially, cannot receive any assistance.

The Piran opstina is allegedly the first one in Slovenia to organize some sort of instruction for refugees. Thus, at the Lucija elementary school, for some time, every afternoon between 3:00 and 5:00, they provide some sort of supplementary activity. This is something that, to be sure, will not be recognized as regular education, but it nevertheless helps to occupy the children, who have been seriously affected by the events in their homeland. That is why a team of about 30 people in the Piran opstina are making efforts to ensure that this refugee school alleviates at least to some extent the difficult days that the children are experiencing in exile. At the Strunjanje reception center (where there are 350 refugees), they received a newborn child several days ago, who was born in exile—in Koper, instead of in Zadar. These events will quite certainly be one more reason for the strengthening of friendship between regions and opstinas of what are already different states.

Postojna—Still under the impression of the battles in their native Osijek, the children who got off the bus in Postojna asked first of all where the air-raid shelter in the forestry center was, stated the shaken Nada Knezevic, who has been teaching health care for 18 years at the Dobrisa Cesaric elementary school in Osijek, and who one week ago, together with seven mothers, a grandmother, six little boys, 15 elementary school pupils, and three students, received shelter at the forestry school center in Postojna (there are approximately 350 refugees in Postojna).

Their days pass in various activities, from recreation and games in the nearby athletic field to walks in the surrounding area. In the evening, however, fear and anxiety creep in among them again. All of them have an ardent desire to have news of peace come in the morning. On Monday, when the bus from Osijek will bring students, they intend to organize combined instruction, since in the nearby motel Proteus there are also several teachers among the refugees from Sisak and Osijek.

"One cannot express in words our gratitude for the hospitality, not only of the leadership of the forestry center, but also of the residents of Postojna in general. When we walk along the streets in a compact group, our hosts stop us and ask us where we are from. We read in

their eyes that they feel for us. In spite of such universal hospitality, our sole desire is peace and returning to our homes, even though most of them are without roofs, or else only ruins are left of them. We are informing those we still believed in yesterday, and imploring them, that we should finally become people of Europe, since we are in the heart of Europe, and we also belong to it," Nada Knezevic said.

Crnomelj—"On Tuesday, those refugees who found shelter in the Crnomelj home will begin to return to their own old age home in Karlovac. Some residents of Karlovac are afraid that the present lull is only a preparation for a general attack against Karlovac. The old age home in Karlovac has been hit by grenades eight times, but the vital parts of the home have not been destroyed. The people want to go back, even if it is to a damaged home. It is full of refugees from different parts of Croatia, and it will have to be emptied," stated Milan Kranjc, the director of the Crnomelj old age home.

There are 38 refugees at the Crnomelj old age home, although there are still many aged people in cottages, weekend homes, and various emergency shelters.

In the Crnomelj opstina, there are about 1,800 refugees (according to the official data, to be sure, there are fewer, since many of them have not received refugee status).

Metlika—Today, several dozen new refugees, who joined 1,300 registered ones, arrived in the Metlika opstina. Actually, there are even more refugees, but they are staying with relatives and friends. "On Saturday, about 25 new refugees came here, but 175 left," enumerated Milan Travnikar, the secretary of the Metlika opstina assembly.

Those who returned were primarily refugees who had livestock at home. They also did not care to move from Bela Krajina to Postojna. At times when there was a lull, they preferred to leave for their homes in Croatia to feed their pigs and cows. They, however, did not believe the official assurances from Croatia that there were no conflicts.

Many refugees are also fed up with sitting around, and so some of them are also more and more bad-tempered. One can hear in Bela Krajina that they are quarreling among themselves. Half of the refugees are Serbs (the fact that half of the refugees are Serbs and half are Croats was confirmed by Anica Pezdirc, the chairman of the Metlika Red Cross). Some of them were supposed to have withdrawn from ethnically mixed villages at the advice of the Cetniks.

[Box, p 3]

There are more than 500 refugees in the Smar opstina. "At the Bjelovar home in Rogaska Slatina, which we equipped for receiving refugees from Croatia, with the consent of the Bjelovar opstina, there are 46 people, mostly mothers with children and some older people. Until yesterday, members of Karitas took care of all their

food, but as of today, only their suppers. Thus, of 300 republic tolarars, we will be able to use part of the money for electricity, which we also need in this home for heating. Since there are also a considerable number of school-age children among the refugees, we are including them in local elementary school classes, or taking them to Krapina and to Hum," stated Red Cross representative Jozica Korez.

About 20 refugees from Vukovar, Vinkovci, and Osijek found shelter at the mountain home at Boc, where the conditions for life in winter are not the most suitable. There is still some room at Boc, but there is no more room in the Bjelovar home. The residents of Smar are therefore planning to redirect most new refugees to families in the Croatian opstina of Pregrada. Many refugees from very different Croatian areas have taken up residence at their own expense in hotels at the Rogaska Slatina health resort.

[Box, p 3]

At the Maribor reception center for refugees at Pobrezje, at 33 Makedonska, 130 people have found shelter. The head of the reception center, Bojan Javornik, told us: "The center has been open for a month, but our wards stay here for an average of 10 days. Then most of them move out to stay with friends and acquaintances, or go abroad."

There are greater difficulties with refugees staying with residents of Maribor. The Red Cross does not have enough money to help feed them. It only provides food packages that are not enough for the whole month. A considerable number of refugees are also housed in Maribor hotels and in Pohorje homes. Since prices at those homes are fairly acceptable, the refugees themselves mostly cover the expenses. There are 1,955 refugees staying with Maribor residents and in hotels, to which one should also add those from the reception center and 20 being cared for by Karitas.

[Box, p 3]

In Brezice, there are still 323 people who have been registered with relatives. In recent days, they have mostly been coming from the vicinity of Karlovac and Duga Resa, and Nova Gradiska and Novka. The Brezice Red Cross opstina organization states that some families have even received 10 refugees, and that they are placing an increasingly greater burden upon the budgets of the families with whom they have found refuge.

[Box, p 3]

[Attributed to Ivica Burnik] Celje—The reception center for refugees at the bachelors' house of the Zinc Works in Celje is empty. In the past days, about 50 people stayed there, and then, after a short rest, sought shelter elsewhere. In any case, these days there are 451 refugees with recognized status staying with 265 families. "And there are at least that many people who do not have that

status," stated Tone Mastnak, the secretary of the opstina Red Cross committee. Some of the them are living in the Prebold and Dobrna hotels, where they are being charged only 300 or 340 dinars per day.

Croatian Minister on Emigre Financial Support

92BA0101C Zagreb GLOBUS in Serbo-Croatian
20 Sep 91 p 14

[Article by Djurdjica Klancir including interview with Gojko Susak, minister for emigres of the Republic of Croatia; place and date not given: "What I Spent the 30 Million Marks On"]

[Text] Gojko Susak, minister for emigres of the Republic of Croatia, is one of the rare people in the first postelection government who still holds his position today in spite of all the reshuffling of the cabinet. The task of the Ministry for Emigres is to serve as a bridge between Croatia's emigre community and the homeland, as an institution which among other things would collect non-repayable aid or credits from emigres to preserve the sovereignty of Croatia—and therefore also for defense. It is understandable, then, that Minister Susak has constantly been at the center of the public's attention....

Ivan Cerovac, conductor of the Zagreb Philharmonic, who the other day became a member of the Guards, called Susak (in an interview with NEDELJNA DALMACIJA) "a trickster in the position of minister"—for allegedly not having wanted to obtain arms for his brigade in the Guards.

Milan Buskain, Croatian emigre involved in collecting money for armament in the emigre community in Germany, arrived in Croatia and passed on the questions which emigres are supposedly asking: Where are the arms for which money was paid into accounts of the Ministry for Emigres, and why has no one called for the emigres to become involved in defense of the homeland "with guns in their hands"?

Minister Susak answers these objections this way:

"Many emigres have already become involved in the defense of Croatia. Some have become involved in combat, others are collecting money for aid, and there have been no problems whatsoever in contacts between the authorities in the homeland and the emigres. And I do not know why some people want to manufacture them in this difficult moment...."

[Klancir] In what manner are the emigres involved in Croatia's fighting ranks? In an organized way, or spontaneously, individually?

[Susak] There is coordination. Back in January, I sent out a proclamation to the emigres, a kind of questionnaire, as to how many emigres could become involved in defense if there should be aggression against Croatia? There was a misunderstanding immediately. Those emigre currents interested in forming their own state

have been causing us particular problems; they openly referred to this proclamation as mobilization and accused us of intentional vagueness. But, of course, I did not speak about mobilization in that proclamation. Anything of the kind would have been contrary to the laws of all countries in which our emigres live.... But the problems have arisen one after another. Hundreds of our people have been called in for conversations in police departments in Germany, Canada, Australia.... When I wrote the proclamation, I consulted the Canadian authorities and I knew exactly how far I could go and what I dare not call for. They suggested to me a questionnaire that would make it possible for us to work up solid evidence without running afoul of their legislation. For example, that is what the Jewish organization did.... The proclamation proposed that one individual be designated in every community or organization of emigres who would keep the records and carry on further coordination. According to our data, that coordination covered 47,000 emigres.

[Klancir] As far as we have been able to learn, the ministry has also had problems opening the account of the Fund for Money Aid to Croatia.

[Susak] Yes, I opened the account—in the name of the government of the Republic of Croatia—in Switzerland.

The official purpose of the money deposits in the account was for economic renewal and protection of the sovereignty of the Republic of Croatia. That was the most that I dared say if I wanted to respect Swiss laws and regulations. Every emigre, however, was in a position to understand for what that fund was intended. Every emigre, in Australia, say, who gave \$5 or \$1,000 earmarked "to buy arms" would end up in jail immediately.

When I registered the fund, I called for collection committees to be established in every country or in every emigre country in order to issue a temporary receipt until such time as the ministry could issue an official expression of gratitude in the name of the government of the Republic of Croatia.... We have the records here in the computer. Everyone who has given at least \$1 is recorded. And there were those who gave even \$1 million.

[Klancir] The account in Switzerland was very soon closed.

[Susak] The bank in which the account was opened received about 300 threatening letters in just the first several weeks. Half of them were written in Cyrillic. The director of the bank then called us and said that our account was after all too great a risk for them. The money was then transferred to an Austrian bank, and a new account was opened. That bank has also been receiving threatening letters, but it has not allowed itself to be intimidated. Since that time, the collection of money has gone without a hitch....

But it is not just a question of money.

Every day we are witnesses that emigres are sending medicine, ambulances, and the like to Croatia. The emigres are involved in large numbers in collecting that kind of material aid. The only deficiency is perhaps in the excessive regionalization of that effort. Certain opcinas (for example, Osijek) send their emissaries out into the world and they get more than opcinas which are not so well organized. Nevertheless, I have tried to reach agreement that at least the drugs would be sent through the Ministry of Health—as a central headquarters that would know where those drugs are most needed. And for the present that is working perfectly.

And these other things.... People usually say—we are a group of emigres from Drnis or Imok, and we send that aid to their people.

[Klancir] Let us go back to money for a moment. People are confused. They have been giving money for arms to defend Croatia, and now they constantly hear that there are not enough arms. Exactly how much money was collected?

[Susak] Those who make estimates of the amounts collected greatly exaggerate.

You cannot simply multiply the number of Croatian emigres in Germany by 1,000 German marks [DM] and say so-much-and-so-much was collected in Germany. Perhaps about 1,000 of the 30,000 Croats in Munich will actually give money.

But I cannot say that I am dissatisfied. We have collected more than we planned on. But one part of the campaign fell through.

In addition to collecting nonrepayable grants-in-aid, the Ministry of Finance was supposed to work out a loan project. Many emigres came here and offered very favorable loans, but unfortunately nothing was done.

As for the amount: In my boldest predictions, I thought of collecting about DM30 million, but I collected more. And if some people say that they do not see for what those marks were spent, all I can say is that it will become evident.

[Klancir] Dare we publish, then, that the Croatian emigre community has given DM30 million for the defense of Croatia?

[Susak] When we began the collection of money, Josip Manolic was prime minister. I told him that we could collect about DM30 million in that way, and he looked at me in disbelief. I also talked about this with President Tudjman.... We wrote a proclamation—and we achieved and exceeded that amount.

[Klancir] Has all that money been spent for armament of Croatian defense?

[Susak] It is clear to everyone that there is no legal purchase of arms for Croatia, and that the JNA [Yugoslav People's Army] disarmed the republic this past May to the last rifle.

Today, there are about 50,000 people fighting on all Croatian fronts, and it is not pitchforks that they have in their hands. For DM30 million we purchased approximately a tenth of the arms in their hands.

[Klancir] Was it not possible to do more before the embargo?

[Susak] The purchases and transport have always been covert. Perhaps it was somewhat easier before the embargo, but it has always been "on the black market." Since this past April, purchases have been very difficult. But even then there were a host of problems. We purchased with foreign exchange, but foreign exchange was going from Croatian banks to Belgrade. We were not able even to borrow.

It must be clear to all those who doubt our honesty that Croatia cannot arm itself with DM30 million. That task requires several hundred million dollars.

I say with full responsibility that not one mark or dollar donated by the emigres has been spent in vain. I understand that citizens, fighters in particular, are nervous and dissatisfied, because the war drives you crazy. Many are inclined to play Robin Hood. For example, I talked recently about buying arms with representatives of a firm, and they told me—but we have already been doing business with you! Three people had already gone to them with my business card and in my name! But what stories I will be able to tell you when times are normal....

I did not read the insults of Ivan Cerovac of the Philharmonic in NEDELJNA DALMACIJA immediately after they were published. His interview had already come out when Cerovac called me and said that he needed ammunition. I found seven cases in Zabok and sent them to him. No more than an hour or two later a friend telephoned and asked me if I had read in NEDELJNA that Cerovac had called me a trickster?

[Klancir] Milan Buskain, in an interview with GLOBUS, said that the emigre community in Germany is disappointed because they had not seen the results of the money they donated to Croatia—and that they no longer wanted to donate money in that fashion....

[Susak] Buskain and the people close around him are probably speaking on behalf of their little group....

The Croatian National Fund is operating in Toronto, and funds from all over Canada are fed into it, and the money goes from it to the account in Austria. The situation is similar in Australia. In America, we do not have a central fund, but we have funds in all the major cities....

Just last week, we received a remittance of \$1 million from Sydney, \$600,000 from Cleveland, about \$1 million from Toronto....

Recently, "targeted actions" have become particularly frequent: I was called, for example, by a group of Croats in Berlin; they said that they had sent money to the account in Austria, but for that money they wanted material assistance to be purchased and delivered to their own native Duvno.

[Klancir] Why has the public not been informed about how much the emigre community has been giving in nonrepayable aid to Croatia? In that way, much of the confusion and vagueness would have been avoided. And there would not have been graffiti like "The emigres, traitors, are not donating money."

[Susak] The funds have been operating....

Had it not been for the war, I would always have been ready to go before the judgment of the public. This way, we cannot reveal to Milosevic or Markovic what we have, how much money we are going to spend, or for what. That would be irresponsible. But all the revenues and expenditures are monitored, all the figures are in the computer, every donor is registered, and everyone has received a letter of gratitude from the Republic of Croatia which states how much he gave. We can give everyone an account to the last dollar.

For the present, we are submitting the account to the prime minister, to the president of the republic, and to the ministers who hold the relevant portfolios. It will be the turn of the public when times are more peaceful.

[Klancir] What repercussions did the Kikas case have in the emigre community?

[Susak] It caused quite a bit of confusion. Especially because of the way in which the Croatian government reacted in this case....

Kikas is a friend of mine. (I also spent 20 years in Canada.) Kikas is an able businessman, a large donor, a sincere patriot. We met about a month ago and he announced to me some of the things he was going to do. I dissuaded him. I convinced him that we must be patient. And then that airplane arrived.... I have no doubt of his intentions whatsoever. But immense problems have now been created.... But we will do everything to free Kikas.

The Croat community in Toronto has been up in arms. They say that they have knowledge that some people in the Croatian government want to distance themselves from Kikas. Perhaps on the basis of certain articles in the newspaper.... But that cannot be the truth. In one letter, I informed them about our true views.

[Klancir] You said that many emigres have already joined the fighting ranks of Croatia. But mainly they are coming as individuals. Is there a possibility of larger groups coming?

[Susak] Yes, such groups are ready. Some have already arrived.

But it is impossible to transport and receive very large groups. Just imagine, for example, that 5,000 Croats start out in Frankfurt. They would have problems at every border. I have therefore issued instructions that they arrive in Zagreb in "small streams," not in "rivers"; that people report to their own opcinas and local communities and become involved that way. Many people have arrived in that fashion and become involved in the defense.

We have managed to get a group of Croatian soldiers, professionals from the Foreign Legion, in an organized way. They are now training our Guards, because we ourselves do not have enough trained people for that.

At this point, we should not even call for emigres to come in any large numbers. Everyone who is abroad has a decent job and family. He can help Croatia more with his work and contributions than by going off to the battlefield. If the war and destruction continue, we will be still more dependent on the foreign funds. But if we bring the fathers to the front, and leave the mothers and children abroad, we will have to take care of them. Those who criticize us for not wanting the emigres to come back to join us in the struggle in larger numbers seem not to understand that.

[Klancir] Are Croatian lobbies successful abroad at this point, when they are most necessary?

[Susak] They are as successful as they can be.

In the United States, people are committed to Croatia at all political levels. Every day I receive hundreds of messages, excerpts from their articles in reputable newspapers, letters to important figures....

It is the same way in Europe.

Often, to be sure, this is an uncoordinated and diffuse effort. But people are active and are helping Croatia. Except, perhaps, for certain people of such vanity that they might follow Paraga or Cicak, and in their actions they are mainly doing harm to Croatia.

My impressions from direct contacts with emigres are exceptionally good. For example, I was recently in Buenos Aires, where there are five Croatian societies operating. Croatian veterans, those who once fought on the opposite side from the one on which our present president of the republic fought, also have their association. When those veterans asked for a meeting with me, they all warned that they would probably be fierce. But 167 of them met me with a message to President Tudjman that if necessary they are ready to take up weapons once again and place themselves under his command.

Slovene Trade Delegation in Moscow, Minsk

92BA0090A Ljubljana DELO in Slovene 21 Oct 91 p 4

[Article by Anton Rupnik: "Slovenia's New Status Will Not Be a Big Obstacle to Trade"]

[Text] Moscow, 20 Oct—A Slovene state and economic delegation conducted talks in the past few days in Moscow and Minsk on establishing direct economic ties, especially in the area of banking, since it is precisely payment through the central state bank that has become an insurmountable obstacle to further trade. In the next few days, the Soviet Union will be adopting a new foreign trade system that gives the former federal republics the exclusive right to regulate foreign trade. This may be an opportunity to increase Slovene trade with the Russian Federation and Belorussia.

Vojka Ravbar and Franc Horvat stated that in the talks, both at the all-union level and in both republics, they encountered understanding for our problems, and that one could expect that Slovenia's new status would not be an obstacle to trade.

Commodity trade with Belorussia has already been intensive for many years, and higher forms of economic cooperation with that republic are also very highly developed. In Minsk, our delegation signed an executive protocol for implementation of the intergovernmental agreement on economic cooperation that was signed this summer with both Belorussia and the Russian Federation by Slovene Prime Minister Lojze Peterle.

As of 15 November, both sides are to open accounts and establish direct payment for goods and services. Although for the time being, on the Slovene side, the Ljubljana Bank has been named as the partner for the Belorussian state bank for foreign trade, it has been agreed that commercial banks on both sides can participate in transactions (a network of banks is just being born here).

The economic chambers of Slovenia and Belorussia have agreed to exchange business information. The Belorussian side has already suggested its commodity list to the Slovene side. This is an offer of export goods, for which the republic itself will be issuing export permits from now on. It is known that the former central administration was an obstacle to commodity trade. With respect to transportation as well, it has been agreed that importing or exporting enterprises can freely choose the most favorable bidders (until now the Soviet side demanded that goods be taken by its shippers).

Both in Belorussia and in the Russian Federation, business partners warned that with the real transition to a market economy, competition was becoming stiffer, and that many of our products, despite their quality, were more expensive than others. In general, one must be aware that preference will be given to bidders who will also be capable of taking over the financing of their exports.

An agreement was also reached in principle with the Russian Federation's central foreign trade bank that both sides would open accounts for direct payment. The Slovene partners were assured at the all-union bank (Vneshekonombank) with regard to old business that it would give favorable consideration to the request for direct estimation of debts and claims between Slovenia and the Soviet Union, and between enterprises on both sides. Consequently, hope remains that it will be possible to bypass the blockade instituted by the National Bank of Yugoslavia against Slovene claims abroad.

[Box, p 4]

We should have a representative in Moscow who would be able to help the Slovene economy with information and coordinate transactions at an intergovernmental level. I can add my own observation to that of our

businessmen. Moscow is still the area from which foreign businessmen "cover" all of the former Soviet territory. It is intolerable that our diplomacy has not done anything to provide the local all-Soviet and broader international public with authentic information about what is happening in our country. What reaches the Soviet political information "market" is almost exclusively TANJUG and TASS reports, and that is why we are treated, following in Belgrade's footsteps, as selfish separatists. It is intolerable that a unique opportunity was missed in September, when in Moscow, at the time of the session of the European Conference on Human Rights, they had a whole series of parallel events in addition to purely governmental ones, from symposiums to press conferences. During this whole time, the CSCE [Conference on Security and Cooperation in Europe] has said virtually nothing about Slovenia.

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